

Focus

Labor Dispute

Hyundai Motor Group in
Trouble with Workers' Union

National

ITU PP 2014

Korea to Be Prime Mover in
Future Global ICT Industry

Industry in Focus

Environment Industry

Overview & Interview with
Policy Maker

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JULY 2013 / VOL. 32 NO.342



The so-called 'creative economy' is the Park Geun-hye administration's key economic policy agenda. It can be defined as the creation of economic values by means of convergence between science technologies, industries and culture to keep in-step with the new paradigm of economic globalization and diversification.

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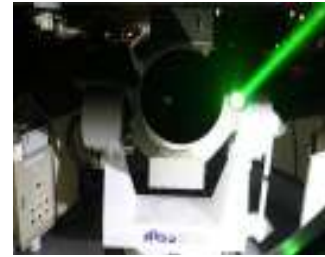
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To Our Readers



What is the Truth about the NLL?

Now the ball is in the court of the prosecution after the 38 days of controversy that jolted the entire nation. The Democratic United Party, in strong opposition to the prosecution investigation, is demanding that independent special prosecutors be appointed. The entire political community is immersed in the Northern Limit Line (NLL) debates and discussions for the livelihood of the public have been set aside.

The ruling and the opposition parties have consistently argued with each other surrounding whether the late former president Roh Moo-hyun really made a remark with the intention of giving up on the NLL in the 2007 summit meeting between the two Koreas.

In retrospect, the 38 days of strife is in vain. Actions are still at large to bring to the open whether the late former president really said so, and the minutes have disappeared. Even if the prosecutor's office finds out who is responsible for the disappearance, the controversy is likely to go on for a long while.

During the long and tedious course, the ruling and opposition parties have fueled their antagonism and conflicts. They have been busy bombarding rough words to each other, totally neglecting the major pending issues concerning the lives of the general public. The thing is such fights become chicken games in most cases where both parties end up on the losing side.

The survey results since the disclosure of the minutes betray the expectations of the ruling New Frontier Party. Approximately 55% of the surveyed people have answered that the former president's remark has no intention of giving up on the border on the sea. Under the circumstances, the ruling party, which witnessed former president Roh at least seemingly agreeing to Kim Jong-il's demand for the nullification of the border, is getting more and more nervous.

Also, a recent survey has shown that 47% of South Koreans are thinking that the fact finding revolving around the NLL should come to a halt now. It implies that the people are now sick of the consuming political strife, calling upon the political circle to pay more attention to the stabilization of their livelihood. Actually, how many people would have read the minutes up to the last page and dwelled upon the meaning?

Such situations, that is, the people at large blindly following misleading politicians with wrongful ambitions, have repeated themselves lots of time in South Korea. Now facts about the NLL have come out in the open but the political community of the country is failing to deal with it with a broad view. Concerns are on the rise over whether it will be able to tackle the significant future challenges the Korean peninsula will face.

From now on, it is the prosecution that has to account for the explanation about the scrapping of the minutes. The political parties have to recall the fact that their top priority lies in stopping the wearisome disputes and going back to the matters directly related to the everyday lives of the people.

Park Jung-hwan,
 Publisher & Editor-in-Chief



산업통상자원부



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LABOR DISPUTE

Hyundai Motor Group in Trouble with Korean Metal Workers' Union

Progress of Wage Negotiations and Collective Agreements for 2013 in Hyundai Motor Group's Subsidiaries

Subsidiary	Major Issues	Note
Hyundai Motor Company (including Hyundai Mobis)	-Immunity privileges for labor union executives, extension of retirement age to 61 and illegal employee dispatch (special negotiations)	-11 rounds of negotiations since May
Hyundai Steel	-Wage increase, incentive payment and reprimand of those responsible for accidents	-Rally scheduled for July 18 before the strike
Hyundai Hysco	-Wage increase and incentive payment	-Possibility of a lawsuit concerning the ordinary wage issue
Hyundai Rotem and Hyundai WIA	-Wage increase and incentive payment	-Partial strikes launched on July 10 and 12 following the instructions from the Korea Metal Workers' Union

Source: Each subsidiary company

Hyundai Motor Group is distressed by the hard line stance of labor unions in the group. It is having a hard time moving ahead with talks with them as the political community and the Korean Metal Workers' Union (KMWU) are intervening in the wage negotiations between them and its subsidiaries.

There have been few labor movements in Korea this year, but the Hyundai Motor Group, unfortunately, has been the target of the KMWU, which is part of the Korean Confederation of Trade Unions (KCTU). The labor organization is claiming above all things that the employees of Hyundai's subcontractors be converted into regular workers.

All Subsidiaries of Hyundai Motor Group Are on Strike

According to industry sources, the labor union of Hyundai Steel is going to go on strike on July 18. Most union members are expected to participate in the

rally, the purpose of which is to get the inside track in wage negotiations for this year. The labor and management sides of the steelmaker had the 10th round of negotiations on July 11 at the company's Dangjin plant. However, the talks came to a halt after just 30 minutes and they failed to deal with a difference of opinion regarding wage increases and incentive issues. Furthermore, recent workplace accidents have been posing another obstacle to talks as the labor union has held employers responsible for poor safety management.

The trade union has already finished preparations for the strike. It took a vote for industrial action on as early as July 4, with 87.92% of members agreeing to the strike. It has also submitted a request for mediation to the regional labor relations committee.

Conflicting opinions are also found in Hyundai Motor Company, in which the labor and management have had no less

than 11 rounds of failed negotiations this year alone. The pending issues between the two include the immunity privilege for labor union executives and the extension of the retirement age to 61. The union of temporary workers, on their part, has illegally occupied factory facilities in its insistence that members become full-time employees. Things are also unstable for Hyundai Mobis. The labor union of Hyundai Mobis is associated with that of Hyundai Motor Company, meaning the former is supposed to automatically join a strike if the latter stages a walkout.

Pay negotiations are in relatively smooth progress at Hyundai Rotem and Hyundai WIA. However, strikes were also held in part on July 10 and 12 according to instructions from the South Gyeongsang Provincial Branch of the KMWU, and expressing their objection to the court ruling regarding ordinary wages and so forth.

Opposition Parties and Metal Workers' Union Are Targeting Hyundai

Industry insiders are saying that the Hyundai Motor Group cannot resolve problems on its own since labor unions' demands have to do with issues relating to the entire labor world. "The issues surrounding the ordinary wage, conversion of temps to permanent workers, in-house subcontracting, and the like have been presented by the labor unions of Hyundai's subsidiaries," said an industry source, adding, "The Metal Workers' Union is using the unions of the automaker as leverage to sway public opinion."

The intervention by external entities is making things even more complicated. The three opposition parties and the KMWU held a press conference on June



Workers are demonstrating in Hyundai Motor's Ulsan Plant.

10, prior to special negotiations on illegal employee dispatch, in order to urge the carmaker to convert its temporary workers to permanent employees.

"Looking into the labor unions' demands, we can see that these are not about improving the working conditions of employees, but turning pending matters into social issues," said Nam Yong-woo, head of the Industrial Relations Bureau of the Korea Employers Federation. He emphasized, "Such excessive demands are likely to cast a negative impact on the national economy as a whole, as well as the labor-management relations."

Governmental Authorities Powerless against Violence

The business and political world has been thrown into utter chaos due to the repercussions of violent protests at Hyundai Motor's Ulsan Plant. Political and business circles and the ruling party expressed concern over "Hope Bus protesters' violence related to Hyundai Motor's in-house subcontracting" at the Ulsan Plant, urging the government to exercise its power and take strict action. With the business and political worlds placed on the defensive due to the global economic recession and legislation related to economic democratization, a sense of crisis that "There is no step back" is spreading.

According to the political and business world and the ruling Saenuri Party, business associations such as the Federation of

Korean Industries (FKI), the Korea Chamber of Commerce & Industry (KCCI) and the Korea Employers' Federation (KEF), and Saenuri Party issued public statements on violent protests in the Hope Bus rally, calling for measures to eradicate such protests and calling on the government respond strongly.

On June 20, approximately 2,500 demonstrators, including the Korean Confederation of Trade Unions and "The Network to make the world without irregular workers" staged a violent protest, including attempts to enter the factory with bamboo sticks after ripping off fences from Hyundai Motor's third plant in Ulsan. During the incident, approximately 80 people from the management and police and around 20 demonstrators were injured.

Many have denounced the demonstration as something that causes the breakdown of law and order.


At first, FKI remarked that this kind of protest leads to social unrest, and demanded strict law enforcement. It also said, "We express our regret over the fact that participants of the 'Hope Bus' who visited Ulsan in the name of calling for change to Hyundai Motor's in-house subcontractors' temporary position resorted to indiscriminate violence."

The FKI said, "We are urging the government take a tough stance against the leaders of the incident, adding, "We are asking labor groups to stop illegal activities related to labor problems and solve

such problems through dialogue." A person in the business world said, "Violence is rampant in industrial sites and government power is weak, even when the company and its employees are threatened by mobs".

KCCI turned its criticism toward the labor world, saying, "The illegal violent demonstration planned previously in the name of 'Hope' actually brought 'despair' to citizens this time." It added, "It is regrettable that the outside force 'Hope Bus' interfered with separate labor problems," and went on, "The government should respond in a strict manner." KEF said, "The government did not stop things immediately, although it witnessed all sorts of violence," declaring its position that, "We deeply regret that the police did not take proper measures even though the violence was obviously meticulously prepared in advance." An official said, "The lukewarm attitude that repeats arresting and releasing is the big problem," adding, "It's been a long time since the law in this country became useless against violent protesters."

The ruling Saenuri Party also demanded tough punishment for the incident. Representative Shim Jae-chul of the Saenuri Party's Supreme Council spoke during a meeting of its Supreme Council: "The idea of talking about hope through illegal activity doesn't make any sense, and it is not the 'Hope Bus,' but 'Despair Bus,' or 'Violence Bus.'" He added, "Outside intervention is not helpful at all. The government needs to respond strictly and call people to account, including putting in a claim for damages."

The Saenuri Party's chief policy-maker Kim Ki-hyun said, "Some group that participated in the so-called 'Hope Bus' last weekend infiltrated Hanjin Heavy Industries two years ago and caused citizens in Busan great pain. We should remember that at that time people cried loudly, saying that it was the Despair Bus," adding, "the Despair Bus, armed with violence, is no longer acceptable, and authorities concerned ought to get to the bottom of it and hold offenders responsible for their actions." 

AGRICULTURAL AND FOOD POLICY

Trying to Realize Sustainable, Cutting Edge Industrialization



Yeo In-hong, Vice Minister of Ministry of Agricultural, Food and Rural Affairs

The environment surrounding Korea's agriculture and food sector is becoming tougher, with free trade agreements launched with advanced agricultural countries such as the United States and European Union. In addition, with a Korea-China free trade agreement being discussed, concerns have been growing regarding the local agriculture community and small food manufacturers. BusinessKorea had an exclusive interview with Mr. Yeo In-hong, Vice Minister of Ministry of Agricultural, Food and Rural Affairs (MAFRA) to hear about how the ministry has been preparing against external threats as well as addressing internal challenges in order to make them an opportunity to strengthen the competitiveness of the local agriculture and food sector. What follows are excerpts from the interview.

Among the 140 tasks recently announced by the government, the "Industrialization of Agricultural, Forest and Livestock Sector for the Future Growth" was high in priority. What is this about?

The task is composed of four detailed tasks and 13 unit tasks. The four detailed tasks

include the industrialization of the agricultural sector as the "Sixth Industry," cutting edge industrialization, promotion of sustainable livestock industry, and the realization of a forest resources-rich nation.

These tasks aim to raise value-added on the agricultural, forest and livestock industry, create employment, strengthen fundamen-

tals such as R&D, and establish a more sustainable environment.

The improvement in the distributional structure of agro-fishery and livestock products was also selected as an in-depth evaluation task. What detailed plans does your ministry have?

On May 27, the Ministry of Agriculture, Food and Rural Affairs finalized and announced plans for improvements in the distributional structure of rural-agricultural products. These plans will result in the diversification of distribution channels and improvements in distribution efficiency through heightened competition. A system will be devised for both producers and consumers to participate in a predictable manner and strengthen consumer's role and engagement in the adjusting of supply-demand.

Firstly, transactions in wholesale markets will be diversified from auction-based deal to fixed priced or private deal. Regulations for wholesale corporations and commission merchants will be alleviated in order to accelerate competition among distributors. Furthermore, distribution systemization focusing on pro-

ducer organizations will directly connect the producer to the consumer. Customized support, such as local food campaigns and farmers markets, will be provided to facilitate direct transactions.

Please explain about specific plans for the construction of the "Food Security" system.

Changes in diet and developments in the livestock industry have led to huge increases in demand for grain. However, limitations in land conditions have made it difficult for self-sufficiency. One of the big tasks is to maximize domestic production for improvements in self-sufficiency and to stabilize the import of grains.

The farmland purchase reserve will be expanded to 69 million ha by 2017 and the relief ratio for farmland preservation charges will be reduced. Approximately 250,000 ha of idle farmland will be restored in order to preserve prime farmlands for food crops.

Beginning next year, the targets for purchase reserve will also be expanded to include not only rice but also wheat and beans.

Beginning in 2009, we are supporting the development of agricultural businesses abroad in order to secure a steady supply line of foreign grains for food security. We support private businesses' entry into the development of overseas agriculture through loans, investment research, information, and training.

On January 2012, the "Law on Overseas Agriculture Development and Cooperation" was enacted. Based on this, the "Comprehensive Plan for Overseas Agriculture Development" was established in September, 2012. We have put a lot of effort into organizing law and policy. We plan to secure 35% of domestic grain consumption through overseas agriculture development by 2021.

As a result, we began to see tangible



results by 2012. The number of companies that entered overseas markets increased from 35 in 2009 to 106 in 2012. The amount of grain secured abroad rose from 24,700 tons in 2009 to 218,200 tons in 2012, while imports increased from 424,000 tons in 2010 to 10,539,000 tons in 2012.

Furthermore, we are working on establishing an international grain outlook system in order to forecast emergency circumstances and price volatility. We will test it on rice, wheat, beans, and corn beginning July, and go into full implementation next year.

Are there any plans to protect the agricultural sector from the damage due to the Korea-US FTA?

The government is working on backup measures for minimizing damage and strengthening the competitiveness of the domestic agricultural sector.

Korea-US FTA backup measures include a total investment of 24.1 trillion won (54 trillion won including tax credits) over a period of ten years (2008-2017). These investments will support the modernization of agricultural equipment and help find new growth engines through R&D and the seed industry.

In addition, we will push for the extension of the rural development tax, which is set to end in June 2014. Continued efforts will be made to secure a steady stream of investment in order to strengthen agricultural competitiveness.

With the Korea-China FTA along the way, significant impact is expected in the Korean agricultural sector. What insights do the authorities have regarding this issue?

China is geographically close to Korea and has a similar agricultural production struc-

ture, including similar climate conditions. Therefore, the large difference in price could have a big impact on our agricultural sector should we agree on a high degree of free trade. We will go through extensive negotiations in order to minimize any effect on the agricultural sector.

In first stage negotiations, we will try to maximize the portion of supersensitive item groups on the concession exception list, as well as put a priority on assigning agricultural products to it. In second stage negotiations, specific items will be finalized and overall service and investment issues discussed. Furthermore, we will actively incubate strategic export items in order to increase the export of Korean agricultural products to China. Based on further negotiation results, we will continue to devise measures for sectors expected to receive the most damage.

What is your opinion regarding large corporations putting out capital for entry into the agricultural sector?

Family farms have been at the backbone of our agricultural developments and such an agricultural tone needs to be sustained. In order to withstand the competition from open markets, the agricultural sector needs to bring in capital and technology from the non-agricultural sector, too.

Above all, I think that the nurturing of family farms has a very important socioeconomic meaning in terms of employment preservation in rural areas, food security, and national land preservation.

At the same time, corporate participation in the agricultural sector can have a positive effect in terms of employment creation, activation of local economy, and improvements in the competitiveness of the overall agricultural sector.

As such, it is important for corporations to

form a consensus with the agricultural industry through extensive communication, as well as seek ways for them to participate in a positive way.


Lastly, do you have any plans to promote the export of agro-fishery and livestock products?

The global recession and falling exchange rates have created difficult circumstances for exports. As a result, our exports of agricultural products are expected to rise by a small amount.

Total agricultural exports as of May 2013 stood at US\$2.3 billion, which is a 3.3% improvement over the same period last year. The main importers were Japan (US\$510 million, up 9.2%), ASEAN (US\$400 million, up 20.0%), China (US\$390 million, up 9.5%), and the US (US\$210 million, up 13.9%). The main items for export were strawberries (US\$23 million, up 32%), beverages (US\$106, up 17%), king oyster mushrooms (US\$6, up 15%), kimchi (US\$39, up 14%), and paprika (US\$39, up 8%).

We will provide aggressive policy support for the diversification of export markets and improvements in the competitiveness of export companies. Beginning this year, we will be hosting the K-Food Fair (four food shows), as well as participate in 23 annual Food Shows abroad. We are also planning various events to which foreign buyers will be invited.

In the second half of this year, we will start operating seven antenna shops so as to develop new markets and conduct research in order to gather market information in ten countries for customized export strategies.

We will also expand shared distribution services for cost reduction, develop foreign exchange risk insurance products, and provide loan support for resource procurement capital. 

ITU PP 2014

Korea to Be Prime Mover in Future Global ICT Industry



Lee Sang-hak, Deputy Secretary General of ITU PP-14 Preparatory Secretariat

The International Telecommunication Union Plenipotentiary Conference (ITU PP) is to be held in Korea in October next year. An international organization under the United Nations, the ITU is in charge of the development of information technologies and networks and has approximately 840 industrial and academic entities from 193 countries as members. The ITU PP is the largest decision-making conference in the global information and communications technology (ICT) industry, and at which current issues and future directions are discussed.

At the conference, held once every four years, ministers and vice ministers of member nations gather to talk about ICT policy. Just one conference has been held in Asia up to now, with

Korea now scheduled to be the second. BusinessKorea met Lee Sang-hak, Deputy Secretary General of the ITU PP-14 Preparatory Secretariat to discuss the event.

Please explain what it means for Korea to host the ITU PP in October 2014.

The conference has had a great influence upon the convergence and standardization of ICT, the creation of new jobs and industries, and the sector's sustainable growth, etc. As the chair country, Korea will play a leading role in the conference, while standing at the vanguard of the global policy efforts in the industry.

The meeting will be a nice opportunity for us to share our creative eco-

nomie development models and their outcomes with the entire world. Making the most of this, we will let the world know about the excellence of our creative economy model.

What is the main agenda of the conference and how are you going to respond to the high demand for the Korea Initiative?

The agenda includes matters associated with the management of the ITU and policy and technical issues related to the development of ICT.

Examples of the former are the enactment and revision of the ITU Charter, selection of council members, decision on the general rules of the organization and its conferences. The latter covers policy and technologies involved with Internet governance, cyber security, the protection of children and women on the Web, higher access of disabled persons to ICT, and so forth.

Next year, conference participants are expected to make a new proposal regarding post-Millennium Development Goals (MDGs) and review the outcome of the World Summit on the Information Society (WSIS) in order to seek better policy and fresh visions for the future of ICT.

Korea, on its part, has already proposed agenda items related to ICT convergence, Internet of Things and machine-to-machine (M2M) communications in April this year during the first preparatory meeting in the Asia-Pacific region. Member countries are currently giving these items concrete shape by collecting opinions. Such issues as information infrastructure protection, mobile broadband, creative economy

and the ITU's greater support for developing nations are also expected to be discussed next year.

Give a brief explanation about the ripple effects anticipated by the ITU PP conference here in Korea, particularly in regards to economy and industries.

Korea's hosting and leading the global policy meeting for the next 10 years implies that it has made a great stride from that of an ICT technology powerhouse to an ICT diplomacy powerhouse.

According to the Korea Information Society Development Institute (KISDI), the conference's production and export inducement effects are estimated at 710 billion won thanks to the spending by the public and private-sector participants, attraction of tourists to Busan - the host city- and the export increase resulted from an increased brand awareness of Korea as IT powerhouse.

In addition, the ICT Expo that takes place in tandem with the ITU PP will be an opportunity for Korean firms to find their way abroad with their innovative technologies and products. The final resolution led by Korea will do its part as well, so that Korea can become the prime mover in the future global ICT



PP14 BUSAN KOREA
2014 부산 ITU 전권회의



industry.

How many participants are slated to join the convention and what are its special programs?

More than 3,000 people, including 150 ministers and heads of sector members, are predicted to participate. Furthermore, at least 300,000 people are expected to join the ICT Expo, the Global ICT Conference, and many other special programs.

The ICT Expo will be a venue at which ICT policy decision makers from around the world can experience the advanced technology of Korea and thus create a boon to the efforts of Korean companies to make inroads in overseas markets. Furthermore, world-famous entrepreneurs and scholars will exchange views about the direction of development of the ICT industry.

In addition, various events for the

promotion of Hallyu are being prepared, through which Korea's cultural content and ICT are combined so as to boost cultural and economic value and the country's national brand awareness.


What has your task force focused on during the course of preparations and what is your future roadmap?

The task force was launched on October 30, 2012. Following this, the ITU PP 2014 Preparatory Committee was organized by the government and staffed with ministers, vice ministers and high-ranking officials.

The first Asia-Pacific Telecommunity (APT) Preparatory Meeting was held as part of preparations between April 2 and April 3, 2013. Participants adjusted their opinions while adopting the ACP, or APT Common Proposal.

In May this year, the Ministry of Science, ICT and Future Planning appointed its spokesperson Min Won-ki as the chair nominee of ITU PP 2014, and introduced the ITU board of directors to him in June. He is scheduled to be named chairman during the opening ceremony.

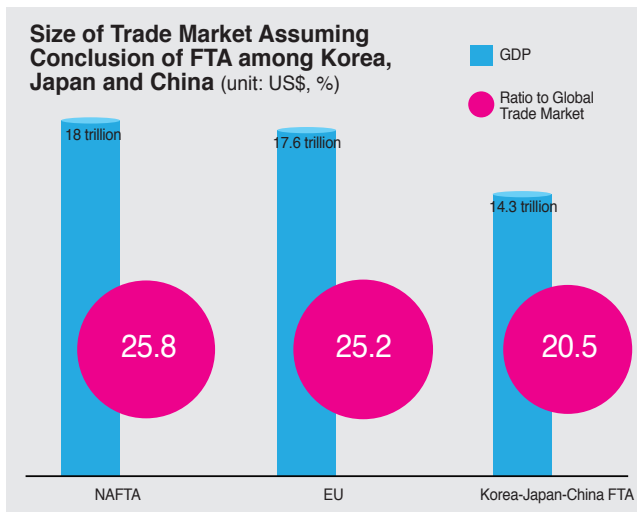
In the meantime, the ICT High-ranking Policy Forum is held in November this year in order to listen to opinion leaders in each region and touch up agenda items. The second APT Preparatory Meeting takes place in Australia in October and will focus on joint contribution and further cooperation for the conference.

In Korea, an advisory panel is to be set up to increase the expertise of those in the government preparing the meeting. The government will continue to strive to attract the voluntary participation of the general public as the conference is important not just for participants but all who use ICT. 



KOREA-CHINA FTA

Picking Up Speed and Putting a Strain on Japan



According to the Ministry of Trade, Industry and Energy, the second round of trilateral FTA negotiations between Korea, Japan and China kick off in Shanghai on July 30. Japan is expected to show a particularly aggressive stance with FTA talks between Korea and China picking up speed thanks to the recent summit conference. The first negotiations were held in Seoul in March this year, with another round of talks scheduled in Japan before the end of 2013.

It is expected that tariff concessions will be the major issue of the upcoming talks. Four months ago, the three countries agreed to have bilateral and trilateral talks regarding the goods segment and only three-way talks in the service, investment and trade rules sectors.

The two-way negotiations in the commodity segment are because sensitive items are different and it is difficult to open the commodity markets with a single concession plan. For example, agricultural and fisheries products and low-price industrial goods are sensitive items of China, yet in Japan it is machinery, electronics products and electronic components. Still, the countries are likely to have a battle of wits regarding tariff

concessions since such two-party negotiations could make three-way talks somewhat less meaningful.

Another issue is whether they will start item-by-item negotiations from the get go as is the case with FTA talks in general, or adopt a modality approach, that is, entering negotiations after deciding first on the degree to which tariffs will be eliminat-

ed. Korea and China have adopted a modality approach in their two-way FTA talks as it is seen as being advantageous for the protection of sensitive items.

Japan is likely to be wary of the fast progress of an agreement between Korea and China, and is therefore likely to push forward with its own negotiations with the two nations. The Korean government is planning to take a cautious approach in regards to the three-way FTA as its discussions with China are showing rapid progress. Once a Korea-China FTA is concluded, the two countries will then be able to take the lead in three-party negotiations. "Discussions among Korea, Japan and China will take more time than free trade talks in general as it is a super-size deal," said Choi Kyung-rim, Assistant Deputy Minister of Trade, Industry and Energy.

FDI in Korea Increased 12.5% in H1

It has been found that foreign direct investment (FDI) in Korea increased year-on-year in the first half of 2013. Specifically, US and European investors made large investments in the service sector, while FDI from Japan plunged.


According to the Ministry of Trade, Industry

and Energy, total FDI stood at US\$8 billion in H1 on a reporting basis, 12.5% up from a year earlier. On an arrival basis, the amount totaled US\$4.41 billion, a 9.3% decrease year-on-year. The sum is US\$1.05 billion bigger than the average over the past five years. The FDI on an arrival basis increased significantly in the second quarter in particular as geopolitical risks and policy uncertainties were mitigated to improve investment conditions.

The US and EU invested US\$3.01 billion and US\$2.41 billion, respectively, in the service industry, while Japan's investment in the manufacturing sector stood at US\$1.36 billion. Japan's investment in Korea, which revolves around manufacturing, component and materials industries such as transportation machinery, electronics and chemical engineering, decreased significantly as Japan's overall cross-border investment declined during the period. Meanwhile, American and European private equity funds' investment in the form of M&A soared substantially.

The ministry remarked that the half-yearly result is quite meaningful in that investment conditions were quite unfavorable in the first half due to the weak yen trend, slow economic recovery and geopolitical risk factors, adding that the government's investment attraction policy also played its part.

Still, it pointed out that an amendment to the Foreign Investment Promotion Act must be passed as soon as possible in order to allow joint ventures between sub-subsidiary companies and foreign-invested firms. At present, potential demand amounts to approximately 500 billion won each for SK Global Chemical and GS Caltex.

When it comes to prospects for the second half, favorable and unfavorable conditions are being found. The global economy is expected to get on a recovery track, yet the weak yen is predicted to linger on and the revitalization of domestic investment likely to take some time. 



Working-level negotiations regarding the Kaesong Industrial Complex are about to be resumed between the two Koreas. Since the North shut down the complex, many in South Korea have pointed out that the issue be approached from an economic, not political, perspective. Democratic United Party senior advisor Chung Dong-young, who served as the Minister of Unification during the Roh Moo-hyun administration, claimed on May 24 that all 123 companies in the industrial complex were in the black.

The Ministry of Unification and the Small and Medium Business Corporation recently published a report on how to improve the business and investment conditions of companies in the complex. The report surveyed 119 out of the 123 firms there in May 2012 and analyzed their financial data for 2009, 2010 and 2011.

The results have shown that average sales and operating profits for 2009 stood at 900 million won and negative 157 million won, respectively. The total sales and profits were 106.2 billion won and negative 18.526 billion won, respectively, which means that the profit ratio amounted to 17% below zero.

The average turnover increased to 1.132 billion won the following year, yet the average operating profit was still minus 55 million won, and equivalent to 6.765 billion won in total operating losses. The profit ratio stood at negative 4.9%, while that of small and mid-size enterprises (SMEs) in South Korea was as high as 5.61% during the same period.

Average sales rose to 1.476 billion won in 2011, with average profits standing at 56 million won to record a business profit rate of 3.8%. According to The Bank of Korea's data, that of SMEs in South Korea was

5.44% the same year.

In 2011, firms in the complex with sales of 0.5 billion won or less posted a profit rate of negative 24%. The figure was negative 13.9% for those with sales of between 0.6 billion and one billion won, 3.8% for those with sales of between 1.1 billion and two billion won, 9.3% for those whose sales are between 2.1 billion and three billion won and 13.6% for those whose sales were higher than 3.1 billion won.

A total of 52 firms recorded business losses in 2011, approximately 44% of the companies surveyed. Moreover, among the 118 respondents, 24 and 25 were firms with annual sales of less than 0.1 billion won and of between 0.1 billion won and 0.3 billion won, respectively.


What matters more than operating earnings in business is the current net income. The average current income of the firms was negative 272 million won in 2009, negative 134 million won in 2010 and negative 14 million won in 2011. Furthermore, 50% of the 118 firms recorded a negative net income during the period, while 27.9% posted a net profit of less than 0.1 billion won, 13.6% of less than 0.3 billion won, 2.5% of less than 0.5 billion won and just 2% of 0.5 billion won or more. This signifies that four-fifths of the firms housed in the complex were in the red or posted a net profit of just 0.1 billion won at best. According to net profit data in the report, 15 of the firms had at least some gain in the period, while 37, or 35.2%, of them, remained in deficit.

The average assets of those companies were 3.39 billion won, with their debts standing at 2.631 billion won on average as of the end of 2011, and meaning that their average debt ratio was 346.7% that year.

Meanwhile, the percentage was close to just one half of that in the same period for South Korean SMEs. Specifically, the debt ratio of the 436,293 small firms in the South that submitted their corporate tax reports to the National Tax Service in 2011 was 152.7% on average.

The debt ratio by industry segment was 501.5% for the textile and clothing manufacturers in Kaesong (169.4% for their South Korean counterparts), 232.6% for bag, shoes and leather goods manufacturers (163.4% for their South Korean counterparts), 115.9% for chemical, rubber and plastic manufacturers (compared to 153.5%), 1,575.4% for machinery and metal makers (compared to 158.2%), and 183.5% for electronics and electrical companies (compared to 139.9%), 316.7% for daily goods suppliers (compared to 172.6%).

At the same time, it has been found that 27 of those firms with sales of less than one billion won underwent capital erosion, while no less than 35 of the firms had a debt ratio of 301% or higher. The average capital adequacy ratio was just 22% for firms in Kaesong but 39.6% for those doing business in South Korea as of the end of 2011.

According to the Ministry of Unification's data, the Kaesong Industrial Complex is not a good place to do business. Approximately 40% of the surveyed firms answered that they were disgruntled with the intervention from the Communist Party of the North. Furthermore, 99 of those surveyed replied that their influence on personnel management was far from enough, while only eight said the opposite. This clearly shows that most of the firms in the Kaesong Complex had little leeway in regards to making decisions on employment-related matters. 

ENVIRONMENT INDUSTRY

Time for Accelerating Overseas Businesses

The Ministry of Environment is accelerating its overseas business in an effort to contribute to the Park Geun-hye administration's pursuit of a creative economy. By doing so, the ministry is aiming to turn the environment sector into Korea's future growth driver, with the global environment industry expected to grow to US\$1.09 trillion by 2017.

Overview of International Environment Industry

According to US consulting firm EBI, the global environment industry is estimated to be three times larger than the semiconductor sector by 2020. Between 2000 and 2010, the market grew from US\$540 billion to US\$780 billion with an average annual growth rate of 4%. In particular, markets in emerging regions such as Asia, the Middle East, Latin America and Africa have grown at 9% or so per year, led mainly by the water and waste treatment sectors. Although the growth rate of markets in advanced economies is less than 2% a year, emerging markets are likely to continue their rapid growth for the next 10 years thanks to their high demand for envi-

ronmental infrastructure.

This continuous growth since the 1990s can be attributed to the ongoing climate change, water shortage, and a depletion of natural resources. Countries all around the world are trying to deal with such issues by speeding up the development of their environment industries.

The increasing awareness of the situation and interest in living standards is creating larger market demands along with the United Nations Framework Convention on Climate Change (UNFCCC), strengthening investments to respond to them. Furthermore, major emerging nations are tightening their regulations regarding air quality, water quality, waste disposal and the management of harmful substances, which implies further growth in the industry worldwide. Under such circumstances, governments are striving to achieve environmental protection and economic growth by nurturing green technologies.

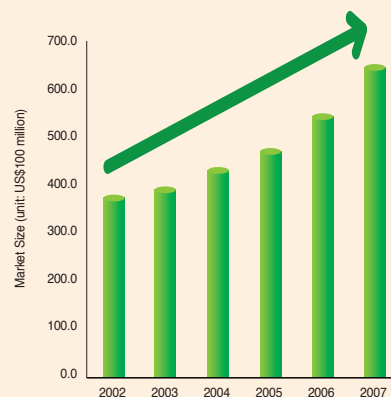
The United States, which boasts the biggest environmental industry in the world, is currently running three support programs; environmental aid programs for developing countries, assistance for the

export of related technologies, and financing support, in order to help local companies make inroads abroad.

Domestic Market Conditions

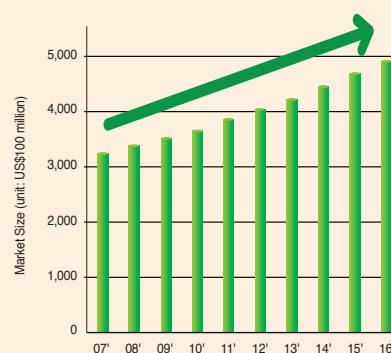
The annual sales of the environment sector of Korea reached 59 trillion won in 2011, accounting for 4.7% of the national GDP that year. Sales grew at an average

Average Growth Rate: 9.2%



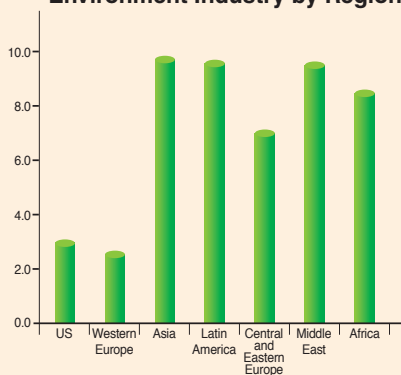
Conversion of Waste to Energy Resources (source: EBI)

Average Growth Rate: 4.2%

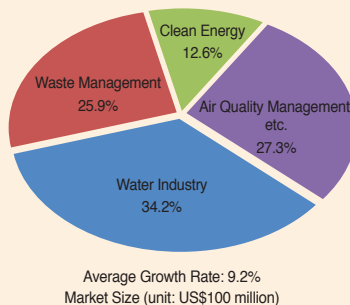


Growth Rate of Global Water Industry (source: GWI)

Growth Rate of Environment Industry by Region

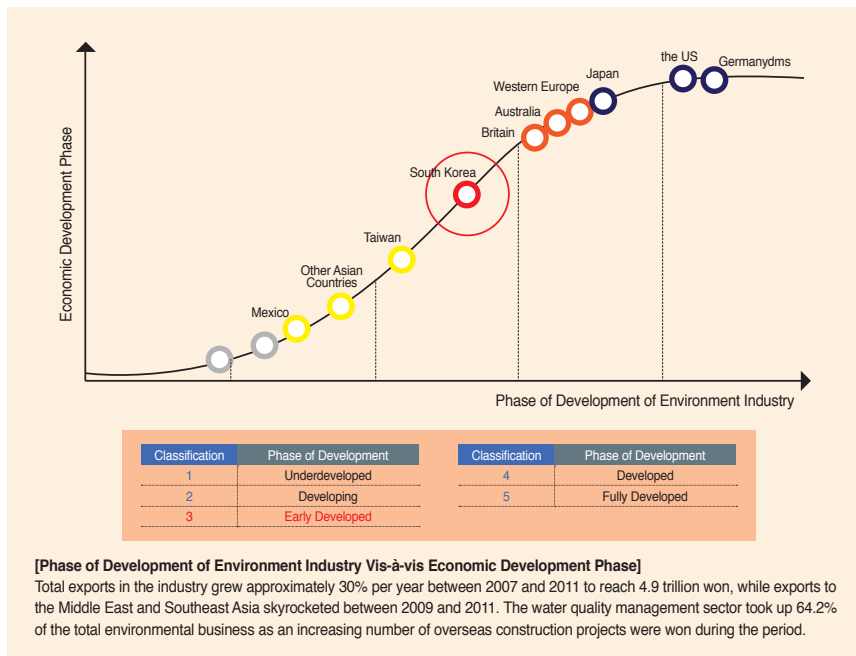


Ratio of Each Industrial Segment



Average Growth Rate: 9.2%
Market Size (unit: US\$100 million)

Conversion of Waste to Energy Resources (source: EBI)



rate of approximately 14.9% during the past five years, with water resources management, waste treatment and air quality management accounting for 23%, 48% and 5% of the total environmental business, respectively.

Growth of Local Market Slowing Down

Still, the industry is showing some signs of slowdown as the domestic market reaches a saturation. The industry's turnover increased 7.8% to 44 trillion won between 2008 and 2009, yet the growth rate was far lower than the average between 2004 and 2009 at 15.5%.

Meanwhile, the amount of overseas sales soared from 2.23 trillion won to 4.98 trillion won between 2008 and 2011.

The government is considering using this year as momentum for it to take the initiative in the industry as the Green Climate Fund (GCF), the Global Green Growth Institute (GGGI) and the Green Technology Center (GTC) have been set up, while the Kyoto Protocol is scheduled to be extended to create new business opportunities in the field of greenhouse gas reduction.

In this context, it is setting the stage for an export-oriented industrial ecosystem at home. The Ministry of Environment has

already announced plans to achieve 10 trillion won in exports in the environment industry by 2017, to grow up 1000 companies with the sales volume of 10 billion won or more. The Third Five-year Plan for the Promotion of the Environment Industry and Environment Technologies, which covers 2013 to 2017, and the Long-term Plan for Overseas Market Penetration made public last year, also share the same goal.

Green Export 100 Project to Nurture 100 Global Players in Environment Industry

More recently, the government announced on June 27 that it would pick

100 small and medium-sized firms in the industry in the framework of the Green Export 100 Project in order to provide full support for the globalization of their businesses, ranging from the selection of export destinations to marketing assistance and legal consulting.

Specifically, it will send business delegations to regions with high growth potential, including North Africa, Southeast Asia and Central and Eastern Europe. Both government officials and private-sector entrepreneurs will join the delegations.

In addition, it is planning to further establish joint growth between big businesses and small and medium-sized firms, allowing for the fact that no less than 90% of companies in the industry are small and medium-scaled enterprises that lacks global competitiveness. President Park Geun-hye recently expressed her will to promote the environment industry. "The global environment market is growing so fast, despite the ongoing economic recession, that its growth rate is estimated at around 9% per year," she said on June 5 during her congratulatory speech for the 18th Day of Environment, adding, "We need to make more aggressive investments in the industry in order to not lag behind the Green Race." She also remarked that the government would spare no efforts on its part. "The government will continue to assist venture firms in the sector based on the convergence between the industry and information communications technology, while also helping them find their way into overseas markets," she added.

Export Amount in Environment Industry (units: 100 million won, %)

Classification	By Country	By Sector
Total	49,767 (100%)	
Middle East	12,290 (24.7%)	
Southeast Asia	3,847 (7.7%)	
Africa	755 (1.5%)	
China	4,978 (10.0%)	
Developed Countries	13,581 (27.3%)	
Other Countries	14,316 (28.8%)	

INTERVIEW WITH POLICY MAKER

Poised to Promote Industry through Technological R&D and Export Assistance



Park Yong-kyu, Director of the Environmental Industry Division of the Ministry of Environment

“The global environment industry grew at an annual average rate of 4% between 2000 and 2010 and is expected to break the US\$1.09 trillion mark by 2017,” said Park Yong-kyu, director of the Environmental Industry Division of the Ministry of Environment, in a recent exclusive interview with BusinessKorea. He emphasized, “Now is the time for Korean companies in the industry to accelerate their overseas business out of the domestic market, which has already reached saturation, and to this end the government will have to seek measures to increase their brand awareness and boost their competitiveness by achieving economy of scale.” The environment industry of Korea accounted for 6.5% of the global market in 2011, with total sales of US\$822 billion, yet its market share stood at just 0.6% in regards to exports. “This is why more policy for the systematic promotion of the industry is needed, along with endeavors for overseas market penetration,” director Park added.

What support measures are available for the overseas business of small and mid-sized enterprises (SMEs) in the sector, representing over 90% of the

domestic environment industry?

The Ministry of Environment is providing phased measures, ranging from market survey and networking to assistance for projects abroad, so that they can successfully enter the global environment market.

Examples include the establishment of master plans for environmental improvement in emerging countries, business localization assistance for the export of promising technologies, feasibility studies associated with environment industry and the dispatch of market survey teams.

Furthermore, the Ministry is running Environmental Cooperation Center in China, Vietnam and Indonesia, which are the key points of its international joint projects, with two more scheduled to be opened in Columbia and Algeria before the end of 2013.

What is the main policy and programs the government is engaged in to increase exports?

More than a few SMEs in the environment industry have had difficulties opening up new markets due to a lack of experience and know-how even though they are in possession of advanced technologies.

In order to deal with this situation, the government launched the Green Export 100 Project. Its purpose is to provide blanket assistance in the form of corporate capability evaluation, export destination selection and support for technological verification, marketing and project procurement.

100 SMEs in the industry will be given support for overseas business between 2014 and 2017. The project shares the same thread with the Park Geun-hye administration’s goal of the globalization of SMEs and the creation of a creative economy. In addition, it is expected to contribute to tackling the unemployment problem.

What is the reason for the government’s dedication to the environment industry and what has it so far accomplished?

Korea entered the industry somewhat later than European nations and Japan did. Furthermore, a number of Korean companies with advanced technologies still remain in the limited domestic market due to a lack of information, capital and strategy. The industry is characterized by a larger number of contracts led by the government, which has made it difficult for companies to make inroads abroad on their own, and thus cooperation between the public and private sectors is urgently needed.

In this context, the government established a five-year plan for overseas market penetration back in 2009. Various projects have been launched abroad since then to attain the target of US\$1 trillion exports by 2017, and as a result, total exports from the industry increased approximately seven-fold between 2004 and 2011 to 4.9 trillion won.

During the most recent five years, the government’s export assistance programs, in which no less than 42.4 billion won has been invested, resulted in 1.065 trillion won in exports, recording a rate of return of 2,512%. To further the accomplishment, it has set up customized backup systems for companies in each market exploration phase, as well as come up with support measures for strategy establishment, business opportunity creation, order procurement and consulting and marketing.

The excellence of the cooperative projects is evidenced by the El Harrach River Restoration Project in Algeria, which is a follow-up of the ministerial meeting between Korea and the African country. The 500 billion won-worth project constitutes a part of the master plan for the improvement of the environmental conditions of Algeria.



The Bird's-eye view of El Harrach River Restoration Project in Algeria

The Korean government has taken the lead in economic diplomacy, allowing many Korean firms to find their way into the local market.

What should participants in the industry do to spur growth in the sector?

I believe that one of the most important things is to make the most of the government's programs to work on more competitive technologies, as well as train future engineers for sustainable growth and cooperate more closely with not only other companies but also related authorities.

Continuous efforts are required to develop unprecedented technologies by combining information technology and biotechnology with the sector. Major corporations also have a role to play, that is, let SMEs utilize their marketing resources and networking infrastructure so that their technological expertise can lead to higher competitiveness in the global arena.

What fields of the environment industry should we pay more attention to in addition to environmental technology?

These days, fields such as climate management, biological resources management, environmental safety, healthcare and knowledge service are rapidly emerging as promising and sustainable segments. Another good example is the environmental consulting industry, in which total services are provided, from investment attraction to project planning and implementation, in order to

main


Not only is the environmental consulting industry a high value added, knowledge service industry itself, but it is even more significant in that it can act as a stimulus to accelerate the growth of companies in the sector.

Furthermore, the development of substitutes for environmental harmful substances and new biological resources is expected to give great opportunities as public concern over the management of toxic chemical materials and environmental diseases rises. The market demand for adaptation to cli-

mate change, better meteorological services, greenhouse gas reduction and weather insurance will also surge from the viewpoint of mutual prosperity between environment and economy.

The Global Green Hub Korea 2013 was held in Songdo, Incheon City in April this year. What accomplishments were made and what is the plan for next year's conference?

The event took place between April 29 and 30 in celebration of Korea's hosting of the Green Climate Fund (GCF). A total of 213 ordering bodies were invited from 56 countries where a lot of business opportunities are anticipated in the areas of water supply management, sewer treatment, atmospheric management fields and so forth. Business meetings were held with them for 273 new projects whose combined size is estimated at US\$34.5 billion.

At the event, the Korean government signed an MOU with Bulgaria to share information, experience and technologies. Including an agreement concluded between Hankuk Fiber AMS and Indonesia's TBE for the construction of water supply pipes, more than US\$1.7 billion-worth during the period. In 2014, the conference is scheduled to take place in Seoul in May. 



The Global Green Hub Korea 2013 was held in Songdo, Incheon

K-BEAUTY EXPO 2013

Growing Beauty Industry into Regional Future Growth Engine



The K-Beauty Expo 2013, the largest exhibition in Korea's beauty industry, is held in the KINTEX Convention Center in Ilsan City, Gyeonggi Province between September 12 and 15 and features the latest trends in the industry. The expo is the successor to the Beauty Design Expo, or BEAUDEX, which was hosted by the province in order to grow the industry into one of the future growth drivers of the region.

Under the theme 'Newborn in your Life', this year's exposition covers cosmetics, hair and nail care, esth  tique, health and spa, obesity control and medical plastic surgery, raw materials and packaging, and so forth. At the same time, it comes with the largest beauty contest in Korea and international conferences to predict the future of the sector. More than 100 companies are invited from all around the world, with over 500 firms welcoming visi-

tors at 800 booths. In addition, approximately 300 foreign buyers will participate in the expo, thus accelerating the globalization of the industry.

Another noteworthy point for this year's expo is that it won the International Expo Certification from the Ministry of Trade, Industry and Energy; the first time for an event of this kind. The certificate is awarded to fairs that perform above a certain level. This is the first time that a local government's industrial expo has met these standards. The hosting committee is also planning to obtain the Union Foires Internationales' certification after this year's event.

These days, Gyeonggi Province is striving to promote the exhibition overseas so that participants can create new business opportunities and achieve better performance in the market. For example, it joined the Cosmoprof Worldwide Bologna 2013, which kicked off on March 8 in Italy, to promote Korean firms in the industry and have business meetings with buyers worldwide. From May 8, it participated in the 24th Asia & Pacific Area International Beauty Fair in Harbin,



China; running its own promotion hall to attract foreign buyers and companies. More recently, it paid visits to leading cosmetics manufacturers and authorities in Liaoning, Shandong and Guangdong Provinces, China between May 16 and June 1 to help companies in Gyeonggi Province make successful inroads in to the Chinese market.

In the meantime, business matching events and one-on-one meetings are scheduled to take place during the exhibition so that they can seek marketing opportunities with their peers in the Americas, China, Japan, Europe and Southeast Asia. The recruitment of participating companies is currently underway.

A large number of companies all over the world are making inquiries about joining the expo as a result of the active promotion by the province. Any company engaged in the production of cosmetics, beauty care products and equipment, healthcare articles and medical service providers and institutions can get an application form from the official website at www.k-beautyexpo.co.kr. 

Greetings from Gyeonggi Governor

"Hub of creative industry, Beauty"

I'm pleased to host K-Beauty Expo this year which was first held in 2009. Korea has the world best technologies and competitive edge in beauty industry and it is a high value-added industry leading the development of beauty related industry and culture.

I hope that 'K-Beauty Expo', which is hosted by Gyeonggido, enhances the recognition on the beauty as a industry and provides a chance for beauty industry to become a high value added 'cultural art industry', not just small technical industry. Gyeonggido will foster the beauty as a new growth engine that will contribute to the future of Korea and provide profuse support so that this expo can offer various chances for female workers to find a job.

Take some advantage for your business and I hope you to experience Korea's beauty industry which has rapidly developed for decades in K-Beauty Expo.

Thank you very much!

Gyeonggi Province Governor

Display Items

COSMETICS

Perfume, Basic skin care cosmetics, Functional cosmetics, Men's cosmetics, Herbal cosmetics, Naturalism / Organic cosmetics Make-up cosmetics, Subsidiary materials for cosmetics, Brand shop, Franchise, Agency such as specialty stores, Association and etc.

HAIR

Special hair care, Hairdye, Hair styling appliance, Styling products, Hair accessory, Hair appliances, Scalp care products, Hair thickener, Hair-related equipment, Wig, yarn, Hair loss apparatus, Hair loss care, Herbal hair loss therapy, Hair loss medicine, Care center, Salon furniture, Service shop, Educational institution or association and etc.

AESTHETIC & NAIL

Cosmetics for skin care shop only, Skin care products, Beauty equipment, Eyelashes products and apparatus. Raw material for semi-permanent make-up and equipment, Nail care products, Nail art apparatus, Tattoo, Body painting, Foot care Foot art products and apparatus, Service shop and etc.

HEALTH & SPA

Spa-related products and appliances, Spa brand / franchise, Body care, Diet products, Aromatherapy, Health functional food Sport equipment and supplement, Fitness and yoga products, Medical device and raw material for plastic surgery, Medical device and products for obesity, relevant clinic and Service shop, Relevant educational institution and etc.

OBESITY CURE & PLASTIC SURGERY

Public organization and government agency, Local government agency / educational institution (relevant university, academy) Relevant beauty/ medical treatment in domestic and foreign

RAW MATERIALS & PACK

Raw material pharmaceuticals, Functional raw material, Natural extracts, Intermediates for pharmaceuticals, pharmaceutical additives. Packing equipment for pharmaceuticals and cosmetic, Container, Bio, Food, Medicine manufacture, Research equipment for cosmetics OEM.ODM / IT solution for Medicine cosmetic manufacture and maintenance, Research Lab, Clinical institution, Association and etc.



2013 KOREA Beauty Expo

K-BEAUTY EXPO 2013

2013.9.12(Thu) ▶ 15(Sun)

KINTEX Hall 1 ~ 3

K-BEAUTY EXPO

MEET THE EXHIBITORS!

There are both names you recognize and new faces on the scene at this year's K-Beauty Expo 2013. Now is your chance to familiarize yourself with the companies and the products that you can see when the expo opens in September. We have 16 of the can't-miss exhibits below.

AMOREPACIFIC CORPORATION

Since its foundation in 1945, AMOREPACIFIC Corporation, a leading beauty & health company in Korea, has supported the Asian pursuit of beauty and introduced women all around the world to the beauty of Asia.

AMOREPACIFIC's founding spirit lies in its commitment to R&D through its unique technology inspired by nature and Asian materials.

The company continues to expand its presence to the world beyond China, France and the United States.

AMOREPACIFIC is also devoted to the development of sustainable products and knows well the importance of engaging in corporate social responsibility activities in order to enhance sustainable growth of the human beings in harmony with nature.

AMOREPACIFIC
CORPORATION



Contact : Mr. Suh Kyung-Bae (CEO) / Ms. Bang Ji-young (Charged for K-Beauty Expo)
<http://www.amorepacific.com>

BELLMONA CO., LTD

Bellmona develops natural cosmetics that applies the benefits that nature gives to human skin. It also customizes products to match individual body chemistry instead of simply matching skin type or color.

Bellmona's focus on researching new technology has recently earned it recognition as a venture company from the Korean government. Based on this, Bellmona will become a company that cultivates new fields in aesthetics, realizing dreams about beauty and ultimately revealing the "essence of beauty" that customers search for. Bellmona make every effort to create a beautiful society with customers who always love nature, pursue beauty and love skin.

Bio Signal Lineup: nanotechnology applied, effective ingredients deeply absorbed in skin

Moisture Lineup: ingredients of oil-permeable membranes combined, a line that provides oil and water

Whitening Lineup: inhibits the creation of tyrosinase and normalizes skin turnover

Contact : Mr. Han, Sung-soo (CEO) / Mr. Kim Jun (Charged for K-Beauty Expo)
www.bellmona.kr



GFC CO., LTD

GFC was founded in 2002. Since then, the weight of the cosmetic raw material market has shifted to new types of raw materials using nanotechnology and biotechnology.

GFC's main project is to develop functional raw materials through cell engineering. The company focuses on anti-aging and longevity research through constant research on skin. The company believes firmly in the strength that the constant development of new technology brings to small businesses.

The domestic raw materials market is over 700 billion won, which requires a reduction of dependency on imports. GFC's strategy for survival is to develop technologies constantly. GFC devotes 20% of our annual revenue to R&D because the company has a strong belief in its future value. GFC also has participated in PCHI, In-cosmetics ASIA, and Cosmoprof. The company is trying to develop and strengthen friendly relationships with beauty companies across the world. GFC cooperates now with Juze Bio (China), CESTISA (Spain), SACI-CFPA (France), and Georges Waltherg wz AG (Switzerland). GFC vows to provide the safest and most reliable products based on its experience.

Contact : Mr. Michael Kang (CEO) / Mr. Daniel KIM (Charged for K-Beauty Expo)
www.gfcos.co.kr



PRO YOU COSMETICS CO.,LTD

As a leading next-generation company in the field of professional aesthetic products in Korea, PRO YOU COSMETICS provides its own brand and OEM products to famous skin care shops and dermatologists' offices as well as to renowned chain stores, actively exporting to 10 foreign countries.

The company obtained a Quality Management System Certification (ISO 9001:2000) and Environmental Management System Certification (ISO14001:2004). The company was also chosen as an Innovative Business Company (INNO-BIZ).

PRO YOU COSMETICS strives continuously to research and develop products by carefully selecting its specialized active ingredients.

Contact : Mr. Yu, Bum (CEO) / Mr. Lee, Chun-sung (Charged for K-Beauty Expo)
www.proyou.com



CREATEION KOREA

Founded in 1972, CREATEION is a 41-year-old research and development company specializing in thermal perm. The main office is in Fukuoka, Japan, having 10 offices and 18 branch offices across the world including Korea, the US, the UK, Australia, and Italy.

The company's products help keep shiny and healthy hair with energy of natural CREATE ION that protects hair damage resulting from alkali and heat.

CREATEION is always there for beauticians by having overseas training sessions which are held every year in Southeast Asia and at its headquarters in Japan. The company is also conducting various education programs on thermal perms, hair coloring and hair cutting techniques managed in the Kangnam education center in Korea.

Contact : Mr. Choi, Myeong-pho (CEO) / Ms. Song, Soo-jin (Charged for K-Beauty Expo)
www.createion.co.kr

CREATE ION®
 PROFESSIONAL



DAESUNG MAREF CO., LTD.

DAESUNG MAREF is a leading company in manufacturing and merchandising various specialized air compression systems in the obesity field as well as in medical and home care. The company has been exporting its products to 73 countries since 1986.

DAESUNG MAREF has worked with our overseas partners to maximize slimming effects. At last, the company was successful in presenting the new slimming concept "DOCTOR LIFE collaboration."

DOCTOR LIFE collaboration is an effective treatment process to complete the dissolution of "fat cells or cellulite" without any yo-yo syndrome. This collaboration is composed of ICE RF, slimming bandages, an air compression system, infrared heating, and provides "Eight treatment protocol programs." Each treatment has three main steps, "Melting, Dissolution & Drainage, and finally Tightening," to complete slimming and prevent Yo-Yo syndrome.

DAESUNG MAREF is doing its best to promote its new concept and collaborate on clinical studies and tests with doctors all over the world.

Contact : Mr. Lee, Jea-kyung (CEO) / Ms. Helen Kim (Charged for K-Beauty Expo)
www.dsmaref.com

DS MAREF



ROBOTOUS INC.

Since its establishment in November 2004, ROBOTOUS has been actively involved in research and development in robot and eco-friendly sectors based on its cutting-edge mechatronics technology.

FRELLE BUBBLEMATE is an eco-friendly product that creates micro-bubbles that are smaller than pores using only water pressure without electricity. Because micro-bubbles penetrate deep into the pores, they eliminate waste matter, provide oxygen, keep skin moisturized and make you feel the effects of forest bathing by generating negative ions.

The product was also certified by many skin clinical evaluation institutions for its help to improve acne, relieve itchy skin and remove dead skin cells. In addition, since its bubbled water delivers a powerful cleaning result, it is an economical product that enables cleansing without using soap or shampoo.

Contact : Mr. Moon, Hong-yeon (CEO) / Ms. Cho, Kyoung-jin (Charged for K-Beauty Expo)
www.robotous.com

Frelle



MIRAERO

Salons mean something more today than cutting hair or doing nails. Today's salons provide an experience.

The experience is provided by salon staff trained to create beauty and release stress and tension. Men and women alike want to escape from the stress of their everyday lives to enjoy the luxury of the salon experience.

Just as important as the hair fashion you create is the ambiance that is given by your professional staff. Miraero has produced a line of salon equipment, meeting both the aesthetic and functional needs of salons. Designers and engineers come together to develop various salon equipment that ensure the feelings of elegance and luxury.

Let us show you what design Miraero can create to enhance the feeling and decor of your salon. Swivel chairs, electric chairs, electro-hydraulic chairs and shampoo systems, which Miraero provides at competitive prices, are the ideal choice for both existing and new salons.

Contact : Mr. Song, Hyeng- soun (CEO) / Ms. Song, Hong- sun (Charged for K-Beauty Expo)
www.miraero21c.com



BD KOREA CO.,LTD

BD KOREA has been specialized in manufacturing electric bases and hydraulic pumps for stylish chairs, barber chairs, and shampoo chairs in Korea since its establishment in 1987, while the company has enjoyed a very good reputation from our customers which has helped us dominate the market.

In particular, BD KOREA developed an electric base for styling chairs, a motor driven mechanism type, for the first time in Korea in 1992. In 1995, the company also started producing hydraulic pumps and bases to meet customer demands and became the number one company in Korea producing both electric bases and hydraulic pumps.

With the accumulated know-how and experience in manufacturing electric bases, BD KOREA has recently developed a series of electric back wash units that are fully reclining, and they are well received in the market with its distinctive design and comfortableness.

To offer more variety of products and become a leading company in the field of salon furniture industry, BD KOREA is always seeking a better solution to improve the quality and service to customers through continuous R&D. BD KOREA will make such efforts continuously down the road.

Contact : Mr. Jang, Myeung-soo (CEO) / Mr. Lee, Ju-man (Charged for K-Beauty Expo)
www.bdkorea.com

BD Korea Co.,Ltd.



ANCORS CO.,LTD

The company was founded in 2009. As a certified firm with ISO 22716, ISO 9001, and ISO 4001, Ancors holds patents for sheets for cosmetic packs, face packs, and gel type mask packs as well as for their manufacturing methods.

The company is basically an idea-generating firm that develops cosmetics with new ideas added to existing products.

The flagship brands are "Secret A" that gives a tactile, visual, and olfactory experience and a BB cream "KERREN" that is sensationally popular at duty-free shops. Ancores recently released KERREN which contains gold flakes.

Contact : Mr. Hong, Seong-hoon (CEO) / Ms. Hong, Jeung-eun (Charged for K-Beauty Expo)
www.ancors.co.kr

ANCORS



EUNHYAE TRADE

The world's leading exporter of new technologies and products. Eunhyae!

EunHyae started under the name of "Eunhae Beauty Treatment Trading Company" in 1979. With the development and expansion of the beauty market, EunHyae has put a lot of effort into developing and discovering new beauty technologies for the past decades since its foundation.

EunHyae has become the global leading exporter of beauty products and technologies to the United States, India, Taiwan, China, Japan, Singapore and Malaysia.

In 2002, the company built a beauty treatment research center and laboratory in Paju, Gyeonggi Province to nurture more professionals for developing innovative technologies.

EunHyae is committed to making continuous efforts for advancing the global beauty industry.

Contact : Mr. Kim, Bok-dong (CEO) / Ms. Kin, Eun-young (Charged for K-Beauty Expo)
www.eunhyae.co.kr



JUBICOS

"Renecell," the Cosnature brand of Jubicos, is a N.I.C.E (Nice · Ingredient · Credit · Excellence) cosnature (cosmetic+nature) brand launched by Jubicos, which has been produced based on the four technologies of microbial control technology, natural substance extraction technology, protein fusion technology and hypoallergenic penetration technology.

Under the catchphrase "Pursuing Healthy Beauty," Renecell has successfully capsulized hydrophobic and hydrophilic ingredients which meet the four major conditions for cosmetics: safety (product must not cause irritation, allergies, or poisoning), stability (product must not have microbial contamination as well as changes in quality, color, and odor), effectiveness (product must provide adequate moisture, anti-aging, UV protection, whitening, cleansing, and coloring), and performance (product must be easily applicable and absorbable).

The company has also developed a special technology for dissolving small peptide molecules. In only two years since its establishment, Renecell is now operating about 60 local branches and 140 road shops.

Contact : Ms. Ahn, Ji-eun (CEO) / Mr. Im, Gyeong-il (Charged for K-Beauty Expo)
www.renecell.com



POURELLE

Under the goal "To provide the best quality for healthy beauty of human beings along with social responsibility," Poureille has been pursuing business and offering education to customers and experts for over twenty years in the Total Beauty field comprising skincare, nail arts, and pedicures.

As a beauty messenger, Poureille has built up its position and reputation by delivering the best of global qualified skincare, nail art, and pedicure products to numerous dermatologists, clinics, and large department stores nationwide.

In addition, Poureille established a cosmetic company to market the masterpiece TOURITU, an herbal cosmetic, and is operating franchise businesses specialized in skincare products.

Contact : Mr. Moon, You-sik (CEO) / Mr. Kang, Heo-ku (Charged for K-Beauty Expo)
www.mavala.co.kr



KBNG

The VL GEL System developed by KBNG is a new LED gel nail product which does not use organic solvents harmful to the human body. Without the typical manicure odor, the product is also suitable for weak fingernails, anti-aging, and sensitive skin. It is a soak-off gel-type nail art product which has high durability and is easy to remove.

KBNG was established in 2003 to commercialize GEL Nail which had been developed through biotechnological research.

With its unique and competitive high quality products, KBNG has been satisfying its customers ever since.

Contact : Mr. kwon, Seong-kyu (CEO) / Ms. Kim, Hyang-ran (Charged for K-Beauty Expo)
www.kbng.co.kr



JMW CO., LTD.

JMW is a professional hair device brand recommended by the experts in hair design for its quick drying and lustrous styling.

JMW is the world's first company to develop and commercialize a hair dryer with a BLDC motor.

Its leading-edge technology in the global field of hair devices and its distinguishable design are already loved by many customers around the world.

With eco-friendly hair dryers and minimal damage hair irons, equipped with JMW's special technology for high performance and low energy consumption, JMW is a leading pioneer in the premium market.

Contact : Mr. Gang, Min-woong (CEO) / Ms. Hong, So-rok (Charged for K-Beauty Expo)
www.jmwkorea.com



JYJ INTERNATIONAL

JYJ INTERNATIONAL CORP is selling fine mist sprayers, lotion pumps, trigger sprayers, and foam pumps for cosmetic, perfume, household and car-care users.

The products are all imported from China and have competitive prices and quality.

The company is striving to become a world-level modern enterprise of spray Packaging, in the future, the company will always provide you with better world-class products, more favorable prices and better service.

Contact : Mr. James CHEONG (CEO) / Mr. James CHEONG (Charged for K-Beauty Expo)
www.jyjinternational.com



ECONOMIC FORECAST

Half-yearly Growth Rate Expected to Rise in H2

Full-scale Economic Recovery to Be Unlikely This Year



The International Monetary Fund (IMF) adjusted downward its Korean economic growth forecast for 2014 from 4.0% to 3.8% on July 9, taking into account the slow recovery of the global economy and the country's high dependence on overseas markets. Two days later, The Bank of Korea predicted that the domestic economic growth rate for this year would be higher in the second than the first half. Private-sector experts, meanwhile, are giving ambiguous predictions, that is, the economy is likely to rebound in the latter half of this year but the pace will be very slow.

On July 11, The Bank of Korea raised its economic growth estimate from 2.6% to 2.8%, 0.1 percentage point higher than the government's announcement in June. At the same time, the central bank revised its estimated inflation rate by 0.6 percentage points to 1.7%, while raising economic growth and inflation estimates for next year from 3.8% to 4.0% and from 2.8% to 2.9%, respectively.

"The domestic economy is definitely on a recovery track, though at a slow pace," said The Bank of Korea governor Kim Choong-soo immediately after a Monetary Policy Committee meeting held on July 11, adding, "The quarter-on-quarter growth rate was 0.8% in the first quarter of this year, with the percentage expected to be higher in the following quarter." He added that the GDP gap, which is the difference between potential and actual growth rates, has decreased since the last quarter of 2012.

In the meeting, committee members unanimously froze the benchmark rate at 2.50%. The governor explained that the decision was based on the key rate cut in May, the effects of the revised supplementary budget that are now appearing and the recent global economic rebound. Furthermore, he refuted comments that the market rate has gone up since May, saying, "That is true but what we need to see is that the benchmark rate cut in May has resulted in a slower rise in the mar-

ket interest rate when compared to other countries." Concerning a possible impact from the Fed's exit strategy, he remarked, "It seems that many people identify the exit strategy with a decrease in liquidity, but overall liquidity does not decline and it is expected that the Fed will maintain its loose monetary stance at least for a while."

In the meantime, major economic research institutes in Korea are also predicting that the Korean economy will be able to achieve at least 3% growth in the latter half of 2013. Still, they are pointing out that this does not mean a full-scale recovery when allowing for the base effect from the 1.5% growth recorded in the second half of 2012. "The weak yen trend and the slowdown of the Chinese economy are happening at a faster-than-expected pace and the issue of reduction in the quantitative easing has popped up to pose greater risks on the domestic economy," said Kim Hong-dal, director of the Woori Finance Research Institute, adding,

“Recovery will be feeble at best during the second half.”

Chinese Economic Slowdown, the Biggest Risk for Korean Economy

Economists' consensus is that the biggest risk for the remaining period of this year will be the slowdown of the Chinese economy. “The Chinese market accounts for 25% to 30% of Korea's total exports, with the figure rising to over 50% when other Asian countries such as Taiwan, Hong Kong and those in the ASEAN region, which are in close trade relations with China, are taken into consideration,” said JP Morgan senior economist Im Ji-won, adding, “This means that a decline in the Chinese economy could deal a blow to Korea's exports.”

These days, the prospect of the Chinese economy is becoming dimmer due to the Xi Jinping administration's strong anti-corruption drive and economic restructuring. The growth rate totaled 7.7% in Q1 and is estimated to fall to 7.5% in the subsequent quarter. Nomura Securities recently predicted that the rate could dip below the 7% mark in Q3 or Q4.

Meanwhile, China's exports are also showing some signs of decline. The General Administration of Customs of the People's Republic of China announced on July 10 that monthly exports and imports for June decreased by 3.7% and 0.7%, respectively, from a year ago. This is the

first time in 17 months that the export growth rate has fallen below zero percent. The rate was -0.5% in January 2012.

Fed's Exit Strategy and Abenomics; Two Additional Risks

Other major risks lie in the Fed's exit strategy and the depreciation of the Japanese currency.


Although the US economy is showing some good signs this year thanks to the improvement in employment index, the turnaround is not enough to give rise to a worldwide recovery. The IMF lowered the US economic growth forecast from 3.3% to 3.1% on July 9, while adjusting the global forecast to 1.7% from 1.9%, taking the federal budget sequester that kicked off in March into consideration. The reduction in the quantitative easing scheduled from September this year is also posing concerns for many countries around the world.

“If the slowdown of the Chinese economy is an unfavorable factor on the real economy side, the Fed's exit strategy is exacerbating the instability of the local financial markets,” said Shin Min-young, head of the Economic Research Department at the LG Economic Research Institute.

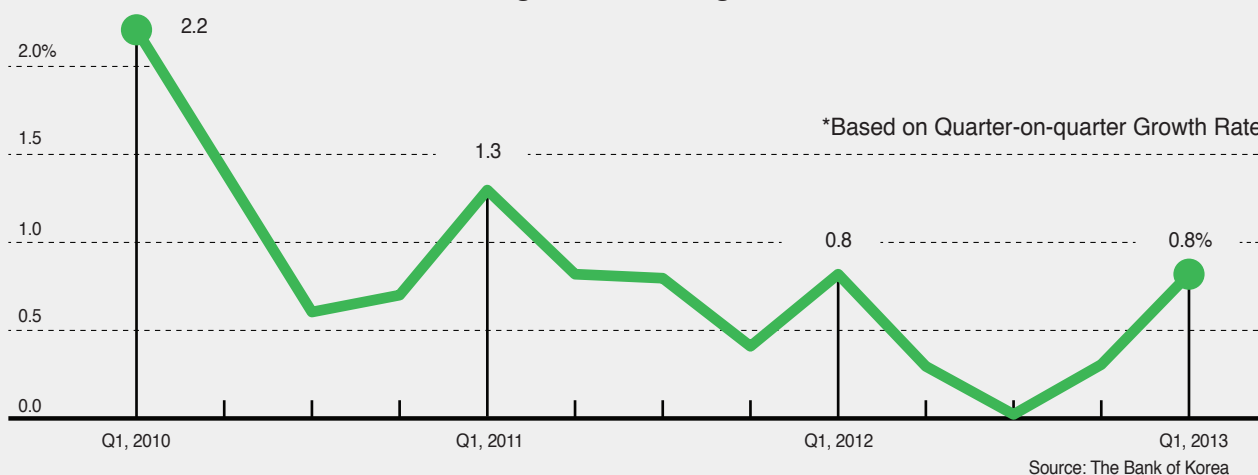
Japan is likely to enjoy an increasing economic growth rate, building on the Abenomics policy, but the problem is that the interest rate hike could result in larger government debt interest and deterioration

in fiscal soundness. Even the IMF, which has been rather favorable in regards to Abenomics, highlighted it as one of the three biggest risks for the global economy. Once the government bond interest rate soars and investors begin to lose trust in the fiscal soundness of Japan, they could flock out of the country and cause turmoil in the global financial market. The yen-dollar exchange rate, which has surpassed 100 yen per US dollar, is another cause of anxiety for Korean exporters.

“Few expected earlier this year that the 100 yen mark would be broken at such a rapid pace,” said Kwon Soon-woo at the Samsung Economic Research Institute. He went on, “If the trend continues, Korea's major export items, such as automobiles and electronics will suffer decreasing price competitiveness.”

External risks such as the Chinese economic slowdown and the Fed's exit strategy are out of the control of the Korean government. This is why economists are calling upon the government to focus on boosting domestic consumption by means of such measures as stronger tax incentives in the housing market. “Domestic consumption is shrinking as middle and working classes tighten their purse strings for rent deposits,” senior economist Im explained, adding, “The government would be wiser to encourage more and more people to buy homes, instead of leasing, by cutting transaction costs, such as the acquisition tax.” 

Will H2 Economic Growth Rate Be Higher than H1 Again This Year?



NATIONAL DEBT

Increasing as Statistics Reflect Public-sector Liabilities



The Korea Land & Housing Corporation, which was established in 2010 through a merger between the Korea Land Corporation and the Korea Housing Corporation, has the largest amount of liabilities - 138 trillion won -- among state-run enterprises in Korea.

The actual size of the national debt has been a highly controversial topic during past presidential elections in Korea. Heated debates between ruling and opposition parties were partly because of the fact that the size differs greatly depending on whether the liabilities of public-sector entities are included or not.

On July 4, the Ministry of Strategy and Finance and the Korea Institute of Public Finance decided to factor in seven state-owned enterprises (SOEs), including The Bank of Korea, the Korea Development Bank, the Financial Supervisory Service and the Industrial Bank of Korea, along with 432 public institutions. The change is likely to raise total national debt by at least 1.3 quadrillion won. Contingent liabilities such as those for pension payments and guarantee liabilities are excluded from this.

Liabilities of State-owned Enterprises Included in Calculation

The government has made use of the accrual-basis general government debt as the major statistical tool for the calculation.

According to this method, which does not take liabilities in the public sector into account, Korea's national debt amounted to 468.6 trillion won as of the end of fiscal year 2011, which is equivalent to approximately 37.9% of the national GDP. Since the percentage is very low

compared to Japan's 205.3%, the United States' 102.2% and Germany's 86.4%, the government has highlighted this in order to emphasize its fiscal sustainability. However, the issue is the massive liabilities of public entities which are not included. As of last year, the total liabilities of the 295 organizations subject to the Act on the Management of Public Institutions totaled 493.4 trillion won. This figure soars to over 566 trillion won when those of the 137 institutions governed by the Local Public Enterprises Act are taken into consideration. As a result, the overall percentage skyrockets to 80% or more. This is why many experts and organizations, including the IMF and World Bank, have claimed that public-sector liabilities be included in the measurement.

Monetary Stabilization Bond of The Bank of Korea Also Factored In


According to the new standard, the seven public enterprises in the banking sector are factored into the statistics, although none of them are subject to any of the acts

mentioned above, in order to follow the global trend. At present, the central banks of developed countries such as Britain and France are regarded as public institutions when measuring the scale of national debt.

Therefore, all of the bonds issued by SOEs down the road will be categorized into national debt, including the Industrial Financial Bond balance of 32.93 trillion won of the Korea Development Bank, and the Small and Mid-size Enterprise Financial Bond balance of 65.5 trillion won of the Industrial Bank of Korea. The Monetary Stabilization Bond of The Bank of Korea is also likely to be reflected because the tool is equivalent to treasury bonds employed by advanced economies for monetary supply control and open market operation. The central bank's Monetary Stabilization Bond totaled 169 trillion won as of the end of May this year. "There will be more discussions and coordination of opinion before deciding whether to include the Monetary Stabilization Bond in the calculation," said Woo Beom-ki, manager at the Fiscal Management Division of the Fiscal Management Bureau of the ministry.

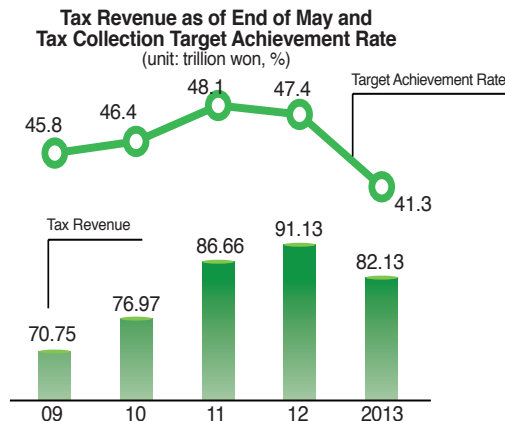
Contingent Liabilities Not Included For Now

In the meantime, the government is not planning to add liabilities on guarantees and contingent liabilities such as the National Pension and the Korea Teachers Pension to the statistics.

The pension allowance side currently totals 436.9 trillion won. When this is included, national debt surges to 902.4 trillion won. There is currently no global consensus regarding this issue. The US, Canada and Australia include their pension liabilities into the national debt calculation contrary to countries in the EU region. 

TAX REVENUE

Government in Trouble



Amount of Corporate Tax Collected
(unit: 100 million won, %)

Company	Q1, 2012	Q1, 2013
Samsung Electronics	13,018	18,904(+45.2)
Hyundai Motor Company	6,968	6,563(-5.8)
SK Innovation	2,513	1,296(48.4)
LG Electronics	2,105	1,546(-26.5)
POSCO	2,398	751(-68.6)
Kia Motors	3,667	1,873(-48.9)
S-Oil	998	457(-54.2)

*Year-on-year increase in the parentheses

It has been found that tax revenue collected during the first five months of this year is approximately nine trillion won less than a year ago as corporate tax revenue, which accounts for almost one-third, has decreased by over four trillion won and value added tax revenue has declined close to two trillion won. The amount of taxes collected is unlikely to increase for the time being in that corporate and value added taxes are directly related to economic conditions. Furthermore, companies are refraining from making new investments as the government moves ahead with the legalization of the underground economy in its pursuit of economic democratization. This is why aggressive measures are needed to improve investor sentiment.

The National Assembly Budget Office recently published a report on the settlement of accounts for fiscal year 2012, in which it said, "The lack of tax revenue is unlikely to be addressed properly in the near future because the economic recovery is slow and there are some structural reasons with the problem."

As the report says, the Korean economy is having a hard time seeking the opportunity for a rebound. According to economists, a 1% drop in the economic growth rate leads to a 1.4% decline in corporate and individual income taxes, a

0.8% drop in consumption tax and a 0.7% drop in social security contributions. In other words, economic growth is the most sure-fire way to raise tax revenue.

The government agrees with this view. It expects national tax income to increase at least a little in the second half of this year, building on the revised supplementary budget in May, investment revitalization measures the same month, and service industry promotions planned for July. The Ministry of Strategy and Finance has adjusted its economic growth rate forecast for this year upward from 2.3% to 2.7% as well, adding to the belief that the country can achieve 4% growth in 2014.

However, things appear quite gloomy. Domestic consumption, which has a direct influence on value added tax and special excise tax, fell 0.4% year-on-year in Q1, 2013. Furthermore, the private consumption growth rate dropped from 2.4% to 1.7% between 2011 and 2012. Value added tax revenue between January and May this year totaled 23.445 trillion won, 1.827 trillion won less than a year earlier. Likewise, special excise tax revenue fell 52.3 billion won during the same period.

To compound the matter, stock trading turnover stood at 651 trillion won in the first half of the year, the lowest since the latter half of 2006, and helping to drag down the amount of stock exchange tax


collected by 438.1 billion won year-on-year. The housing market also remains in a slump, decreasing the ratio of asset-related taxes, such as transfer, comprehensive real estate holding, inheritance and gift taxes, from 15.1% to 10.2% between 2007 and 2012.

Meanwhile, the sales and operating profits of companies have also dropped, increasing the possibility of the worst ever corporate tax collection record. The amount for the first five months of 2013 fell 4.344 trillion from a year

ago to stand at 19.938 trillion won, which is equivalent to just 43.4% of the government's target. At the end of May last year the figure stood at 52.9%.

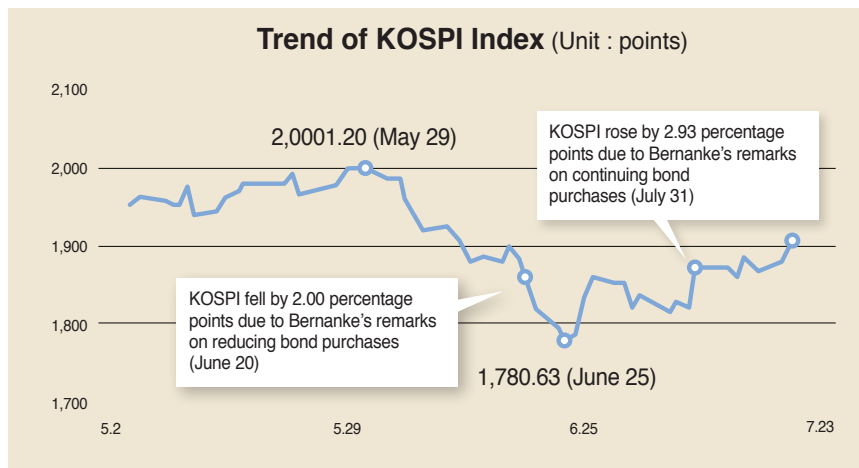
The situation is even worse when payments are looked into by corporation because the larger ones, who account for at least 30% of the corporate tax income, are showing poor performances. In Q1, Hyundai Motor Company and Kia Motors paid 656.3 billion won and 187.3 billion won in corporate tax, respectively, 5.8% and 48.9% less than a year earlier, respectively. The rate of decrease stood at 68.6% for POSCO, 48.4% for SK Innovation, 54.2% for S-Oil, and 26.5% for LG Electronics.

"Some research institutes are predicting that major companies, with the only exception of Samsung Electronics, will pay 50% to 70% less corporate tax this year," said an industry insider.

In short, an increase in tax revenue is unlikely unless the government comes up with some trump cards. One of the most viable options is another revised supplementary budget as the Park Geun-hye government is opposed to increasing taxes. It is saving the option for now though. "It is too early to talk about another revised supplementary budget with the first one only having been implemented in May and the effects having yet to appear," said the Ministry of Strategy and Finance. 

FINANCIAL MARKETS

Recovering from “Bernanke Shock” in About One Month



Financial markets recovered from the “Bernanke Shock” in about one month.

Indicators in stock, bond, and exchange markets that were rattled after Federal Reserve Chairman Ben Bernanke's remarks on June 20 that Washington would reduce its bond purchases have recovered to previous levels. Since his remarks, Bernanke, however, has repeatedly stated that the reduction may start at the end of this year and that interest rates would be divorced from the reducing of bond purchases. The markets are finally responding to this with lowered volatility.

On July 23, South Korea's benchmark KOSPI rose 1.27% to 1,904.15 points driven by foreign and institutional buying. This is the first time the KOSPI was above 1,900 since Bernanke's remarks.

That same day, sectors such as steel and metals, securities, construction and finance, which had been overshadowed by IT and automobiles, finally saw a rise, leading the recovery to the 1,900 mark.

On June 18, the day before Bernanke's remarks, the KOSPI was at 1,900.62. Yet following the remarks, the KOSPI continued to plunge to a record 1,780.63 on

June 25. However, as foreign investments slowly recovered and institutions such as pension funds went on to actively defend the index, rates have been recovering. Foreign investors that had been on a selloff, bought 320.7 billion won on July 23 alone, leading this month's net buy to 62 billion won. Institutional investors have bought a total of 656.1 billion won, leading the index hike.

“The market started taking Bernanke's words that a rise of interest rates would be divorced from a reduction of bond purchases and that this may start later this year,” said Ji Gi-ho, head researcher at LIG Investment & Securities. “We should focus on the fact that the recovery in the past month was led by sectors of materials and finance, not by IT and automobiles,” he added.

Although foreign investment is improving, market experts predict that low performance by individual corporations will result in little movement in the index. However, if China puts out an aggressive policy for economic stimulus, the KOSPI could surpass 2,000.


“The KOSPI declined from the 2,000

level, so there's still room for additional improvement,” said Kim Hak-gyun, director of Investment Strategy at KDB Daewoo Investments. “The index will stay fairly stable and upward movements will depend on the China variable,” he added.

Domestic bond rates that had been on a hike also recovered to stable levels.

According to the Korea Financial Investment Association, Treasury bond (3-yr) yields rose 0.03% from the previous day (July 22) to be traded at 2.88%. The bond market is finally recovering from concerns that a US exit strategy would begin. The Treasury bond (3-yr) yields that were formed around 2.7%~2.8% prior to Bernanke's remarks hiked sharply to 3.12% at one time, but recovered quickly in July to their previous levels.

Experts predict that volatility in domestic bond markets will continue as there are still uncertainties regarding a US exit strategy. “After Bernanke's remarks, concerns about a tapering of asset purchases decreased and interest rates declined following the poor performance of housing indicators,” said Park Hyung-min from Shinhan Investment & Securities. “However, as policy uncertainties remain until the tapering of asset purchases actualize, volatility in the US bond market may continue,” he added.

Exchange rates are also recovering. On June 25, exchange rates at one point hiked to 1,161.4 won against the dollar. However, it has since dropped to 1,117.0 won, which is even lower than before the Bernanke Shock. The Japanese yen, which climbed to the 101 level, also fell to 99.36 yen against the dollar. Furthermore, with Shinzo Abe's victory in the parliamentary elections, the push for a low yen policy is expected to begin. 

Thoughts on QE Tapering

Daniel Cho, CFA,
Head of Research, Daishin Securities

The QE tapering has been a buzzword for markets around the world since late May.

As debates heat up, the Korean stock market pulled back below the 1,800 level last month. But stocks are now extending a sustained rebound as related fears recede.

Was the Fed QE tapering something that markets have not expected?

Global markets apparently did not move in line with the consensus. After the May 1 FOMC minutes were released on May 22, markets around the world began to steer away from risky assets even though the meeting itself did not trigger any fears. Stocks tumbled again on June 19 when Federal Reserve Chairman Ben S. Bernanke failed to meet the market's expectation for accommodative remarks at the June FOMC meeting. Ironically, however, investors started to rekindle their appetite for risky assets when the June FOMC minutes were released on July 10.

Fortunately, we have seen the QE fears coming.

In our previous reports titled US QE Expansion & Korea Stock Market Forecast (Dec 17, 2012), KOSPI Near-term Resistance and 1H13 Scenarios (Jan 7, 2013), Building Core Portfolios (Feb 5, 2013), Stock Market Viewed in the Context of Pent-up Demand (Mar 5, 2013) and No KOSPI Rally in 2Q13 (Apr 4, 2013), we predicted a major pullback in 2Q13 triggered by fears of early QE tapering.

We were able to think differently because we believed that Bernanke was undertaking QE within the purview of foreseeable policies. Detailed measures

of QE3 implemented on September and December 2012 looked extremely similar to those of QE1 (strengthened policy by additional Treasury purchase three months after MBS purchase announcement), and the treasury bill purchase program did not last long in the previous rounds of QE. The only difference between QE3 and the previous rounds was that Bernanke did not set the deadline as he had seen the negative impacts (ex. stock price declines and weak macros).


In line with the markets' consensus, we expect the Fed to take its foot off the QE3 pedal by the year-end in the forms of LIFO (Last In First Out) as seen in QE1 and QE2. The Fed is likely to end the treasury purchase program before ending the purchase of MBS in 2014. We expect the Fed to either end or shrink the bond buying around 4Q13 when unemployment rate begins to hover below 7%. In five months, the number of the employed in the US is forecast to rise to the level seen before the 2008 financial crisis.

In the near-term, global markets might experience a correction in mid August. The US July Consumer Price Index, to be announced in August, is forecast to rise nearly 2% from a year ago, which will likely give another rise to QE tapering fears. In June and July 2012, the global oil prices were near the year's low. The WTI price has rebounded from below US\$88/bbl in July 2012 to US\$105/bbl in July 2013. The US gasoline price (nationwide average) has climbed more than 4% from a year ago, and the bullish trend is likely to persist during the summer driving season. The QE fears subsided after June this year



Daniel Cho

thanks primarily to the consensus that the US inflation rate did not reach 2%. Markets around the world should face another critical juncture in August.

Nonetheless, we expect the upward trend will not be deterred by a short-term correction in August and QE tapering in late 3Q13~early 4Q13 as improving macros outweigh fallouts from QE reduction. The US housing prices, which have recovered to the pre-QE level, is the case in point. Investors will see more of improving fundamentals and forget the fears of QE tapering. In the meantime, investors in Korea will show more interests in stocks. We expect Korean stocks to rise in 4Q13 helped by increased money inflow from domestic investors. A market correction in 2H13, if any, will be a simple withdrawal symptom after four years of indulging in liquidity. 

FINANCIAL SUPERVISORY SYSTEM

Raising Concerns of Overregulation



The response by the financial industry and National Assembly regarding the proposal to reorganize the financial supervisory system announced by the Financial Supervisory Service (FSS) on July 23 has not been admirable. They criticize that the act of maintaining the Financial Services Commission (FSC) while dividing the FSS and Consumer Financial Protection Bureau (CFPB) shows no clear purposes and will have no actual benefit.

In particular, as seen from previous cases, the new CFPB and the weakened FSS may overuse regulations in order to show off their respective existence to each other.

Most of all, both the ruling and opposition parties criticize that the FSC has not been restructured. They claim the FSC, which was originally in charge of rearing the financial industry, increased its power by taking over the authority for both financial supervising and consumer protection.

As a result, the opposition party is pushing for the role of establishing financial policies to be taken away from the FSC and given to the Ministry of Strategy and Finance, effectively allowing the FSC to have only financial supervising authority.

Concerns over Overlapping and Blind Spots

Currently, financial companies have mas-

ters such as the FSC, FSS and the Fair Trade Commission (FTC). Furthermore, they must sometimes pay attention to the Ministry of Strategy and Finance and even the Board of Audit and Inspection. Under such circumstances, the possibility is getting bigger that the CFPB may end up becoming another monstrous master.

According to the reorganization plan, consumer protection will be transferred entirely to the CFPB, while the auditing of financial companies will be assigned case-by-case by either the FSS or CFPB.

The problem is that it is difficult to differentiate the functions of the FSS and CFPB. For instance, the CFPB is in charge of regulating lenders' businesses, yet the FSS is responsible for revising related policies. The auditing process for the regulations and regulation revisions can be done by either organization or both.

Up to now, the FSS has made its regulation revisions internally by sending civil complaints collected by the CFPB to the bureau of inspection services in the FSS. However, the two organizations must endure such confusion for the time being. One FSC official said, "The two organizations can manage to decide for themselves how to divide the roles, but they will face chaos at first."

Financial companies also seem to be at a loss. A vice president of a commercial bank


stated, "An inspection agency should have the supervising power to secure a consistent regulation, I don't understand why these functions have been divided."

The FSC suggested that the problem be solved through cooperation between the two organizations. According to the FSC, unilateral audits will be minimized. As for imposing sanctions on financial companies, the decision will be made through the Sanctions Deliberation Committee in which both organizations participate, while standards are also to be established jointly. An official at the National Assembly State Affairs Committee stated, "Even in urgent times, such as the financial crisis in 2009, the Ministry of Strategy and Finance, FSC, FSS and other related organizations did not want to share information with each other," adding, "It is questionable whether the FSS and CFPB can really cooperate to the extent that they share key information."

Even Ruling Party Tilting Its Head on Reorganization Plan

The FSC expects the National Assembly will pass the draft act to reorganize financial supervising system as early as this year after its deliberation in September. As a result, the CFPB could then be launched during the first half of next year.

However, opposition parties, including the Democratic Party, are strongly against the draft and the ruling party is not likely to go ahead with it against such opposition.

Both ruling and opposition parties have pointed out that the plan is missing a restructuring plan for the FSC. An official of the ruling Saenuri Party said, "The main reason for the savings bank incident is that FSC did not divide its policy function to promote the financial industry from the supervising function oriented to supervising and auditing," adding, "The draft contains wrong content and contains no fundamental solution for this problem." However, the ruling party is not in a position to simply oppose a draft supported by the President. 

STOCK MARKET

Between Two Stools



Two Major Issues in FRB Chairman Ben Bernanke's Congress Speech

1. Assessment of the degree of the current US economic recovery

Positive signs have been given in Q2, including the improvement in the employment index, but the overall economic growth rate is likely to be far lower than that of Q1. Attention is being paid to whether the chairman will focus on the slowdown in Q2 or the possibility of future recovery.

2. Where to put more weight between economic recovery and restrictive monetary policy

There is a precedent that he changed his stance on the priority between the two. The key at this time is where he will put priority between the exit from the quantitative easing and economic rebound.

Volatility in the Korean stock market is on the rise due to external factors such as foreign investors taking their money out from Korea-related funds. Meanwhile, concerns over a possible earnings shock for the second quarter of this year are causing investors to take a low profile. The market, which was one of the best choices for global fund managers until recently, is losing its appeal when compared to its Chinese and Japanese counterparts.

It is for these reasons why stock market insiders are paying keen attention to the Congress speech of Federal Reserve Bank (FRB) Chairman Ben Bernanke scheduled for two days from July 17 (local time). His remarks regarding monetary policy are expected to have a greater influence than ever before.

Another Blow to the Market?

According to financial research firm Morningstar, Korea currently accounts for 7% of global funds investing in emerging economies. The figure reached 8% not long ago as Korean companies sharpened their competitiveness in the wake of the global financial crisis back in 2008. However, the figure has been dropping since the latter half of 2012, with risks related to China getting worse and the United States' exit from

quantitative easing on the horizon.

There have been various cases of the FRB Chairman's remarks jolting the domestic stock market. For example, he mentioned a specific timetable for restrictive monetary policy on June 20, causing many Asian stock markets to plummet, including Korea. Secondly, his remarks at a Federal Open Market Committee (FOMC) meeting that the committee could mull over some reduction in asset purchase before the end of the year sent shockwaves to stock, bond and foreign exchange investors alike. On July 11, the market gained approximately 3% after moving sideways for a while. The reason for this sharp upswing was believed to be his remarks that economic stimulus measures still have an important role to play for the time being.


Insiders are predicting a similar reaction this time. According to them, the ball is now in the court of the FRB Chairman as China recorded a GDP growth rate of 7.5% for the second quarter of this year; meeting the expectations of market participants. The positive index allowed the KOSPI to rebound by over 1% to 1,887.49 points.

What's Next?

"It seems that the chairman will mention the necessity of slowing down quanti-

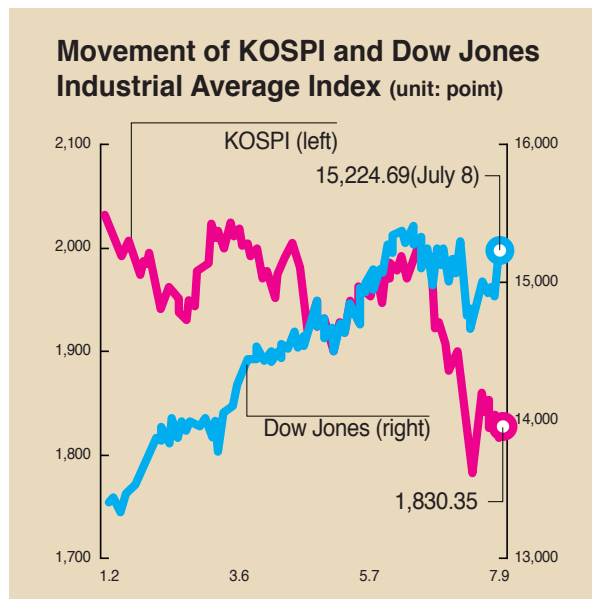
tative easing during his economic forecast speech," said IBK Investment and Securities researcher Kim Soon-yeong, adding, "Still, he is expected to reconfirm that the full-scale implementation of an exit strategy will take more time." Lee Soo-jeong, a research analyst at Korea Investment and Securities, echoed this, saying, "Investors are already well aware of the fact that the expansionary monetary policy will not last." She went on, "Favorable economic conditions will increase expectations about a base interest rate hike, which is the second step of an exit strategy, and it will become an important variable for H2 this year along with the stance of the next FRB Chairman and the FOMC's policy orientation."

In any case, the most significant variable is investment by foreign investors. Many watchers are pointing out that a different approach needs to be taken to interpret the current change in the supply and demand of foreign funds, that is, the recent selling spree is grounded on long-term reasons such as a decrease in growth potential rather than investment portfolio adjustment or fiscal exit strategy. As a matter of fact, the local initial public offering (IPO) and M&A markets have remained stagnant for years. Furthermore, what little investments that are being made are becoming more and more concentrated on major companies such as Samsung Electronics.

"The US economy seems to have hit the bottom, but the story is different for the Korean economy when the decoupling trend that appeared at the beginning of this year is taken into consideration," said Samsung Securities analyst Kim Yong-koo. He added, "Momentum is hard to find with anxiety over the future of the local stock market reaching its peak and the possibility of selloff is all around as risks are becoming evident both at home and abroad." 

KOSPI

Drifting Sideways despite Stock Market Recovery in Advanced Economies



The Korea Composite Stock Price Index (KOSPI) remains locked between 1,800 and 1,900 points, unlike that of the United States and Japan which are showing signs of recovery, due to a lack of investment from foreigners. It seems that the trend of global funds flocking from emerging nations to advanced economies will continue for the time being. According to stock market experts, the Korean bourse is expected to be able to keep in-step with its counterparts in developed countries from Q4 this year at the earliest, when the recovery of the US economy and a following increase in domestic consumption are likely to produce some effects on the performance of Korean IT product and automobile manufacturers in particular.

On July 9, the KOSPI closed at 1,830.35 points, 0.74% up from the previous trading session. It has remained between 1,780 and 1,850 points for almost a month since it dipped below 1,900 points on June 13. Foreign investors continued with their selling spree for the

fifth consecutive session that day, disposing of shares worth 101.3 billion won on July 9 alone.

In contrast, stock markets in developed countries are currently showing strong performance. The Dow Jones Index gained 0.59% on July 8 (local time) to reach 15,224.69 points and rising for three consecutive trading days, while the Nikkei 225 Index advanced 2.58% to close at 14,472.90 points the same day, and increasing by more than 1,500 points during the previous three weeks. Those in Germany (2.08%), France

(1.86%) and the UK (1.17%) also showed upward tendencies.

At the same time, global funds are moving towards advanced economies. According to Hanwha Investment & Securities, funds worth US\$5.282 billion in total flew into these regions last week, yet just US\$0.7 billion flew into emerging markets. Furthermore, it has been found that US\$0.14 billion moved out of Asian markets, excluding Japan.

Industry insiders are ascribing this decoupling to the increasing appeal of advanced economies, which are currently showing some rebound. "The flow of foreign capital out of Korea is due to profit taking," said Oh Sung-jin, director of the research center at Hyundai Securities, adding, "Although global funds are turning their attention towards advanced economies after taking some profits in emerging markets, they would return to the latter, especially Korea with its strong fundamentals, once such profit realization is completed."

As a result, the question is when and on

what conditions will foreign investors return. Stock market analysts are predicting that this will take place only when the share price of Samsung Electronics shows signs of improvement and the Chinese economy perks up.

"The Korean stock market has recently stumbled because of foreign investors' selling of Samsung Electronics shares," said Kiwoom Securities research center head Park Yeon-chae. He went on, "However, unlike Apple, Samsung Electronics has a wide variety of products in its lineup and has successfully pursued vertical integration; therefore its sales will recover fast amid the recovery of the US economy, which means the stock price forecast is quite bright for the manufacturing giant and the KOSPI as a whole."

However, Kim Ju-hyeong, who heads Tong Yang Securities' Investment Strategy Team, warned, "One of the soft spots of the Korean stock market is that more than a few of the listed items are highly dependent on China." He added, "The Chinese economy, however, is expected to remain slow until the upcoming 18th National Congress of the Communist Party of China scheduled for October, which could pose a burden on the Korean stock exchange."

"Korea is found in an economic expansion cycle, unlike other emerging nations, in the Index of Leading Economic Indicators of the OECD for May," said Kim, adding, "Since the Korea economy has just entered the expansion cycle, the stock market will show a gradual upturn for the time being." Shinyoung Securities Research Center director Jo Yong-joon echoed this, saying, "The current rebound of the US economy does not immediately lead to increasing consumption and a positive effect on the Korean stock exchange, therefore, we will have to wait until the last quarter of this year at least in order to see the markets moving in the same direction." 

KOREAN SECURITIES FIRMS

Prediction Capabilities Brewing Controversy

Operating Profit Estimates and Actual Figures for Samsung Electronics (unit: trillion won)

Period	Estimate	Actual Figure	Difference
Q2, 2011	3.6	3.8	0.2
Q3	3.3	4.3	1.0
Q4	4.5	4.6	0.1
Q1, 2012	4.9	5.6	0.7
Q2	6.5	6.4	-0.1
Q3	7.5	8.0	0.5
Q4	8.3	8.8	0.5
Q1, 2013	8.5	8.7	0.2
Q2	10.2	9.5	-0.7

*Source: FnGuide

Local brokerage firms' prediction capabilities have become an object of criticism as Samsung Electronics came up with disappointing earnings results for Q2. They criticized JP Morgan, which expressed concerns over Samsung's quarterly sales and recommended investors to sell shares in a report published last month, only to see they were correct in the end.

According to financial data provider FnGuide, 20 of the 25 major securities companies in Korea forecast that Samsung Electronics' operating profits would surpass the 10 trillion won mark for the second quarter of this year. However, it has turned out that their estimates missed the mark by at least 500 billion won when compared to the actual earnings record made available on July 5.


Hana Daetoo Securities, whose estimate was 9.5 trillion won, recorded the highest accuracy among the 25 companies. It was followed by Hyundai Securities, Hanwha Securities, Shinyoung Securities, Mirae Asset Securities and Taurus Investment & Securities, all of which showed a gap of less than 300 billion won. Meanwhile,

approximately 80% of firms, including the largest ones in the country, predicted that Samsung Electronics' quarterly operating earnings would exceed 10 trillion won.

However, foreign brokerage houses' concerns over the company's Q2 performance have proven to be well-founded. The estimate of JP Morgan, which jolted the local stock market with its report last month, was 9.7 trillion won, with that of Goldman Sachs' being 100 billion won less.

Both securities companies at home and abroad care greatly about the price of Samsung Electronics shares as the manufacturer is number one in Korea in terms of market capitalization. Therefore, their

stock price forecasts have showed a significant gap on just a few occasions during the past two years or so. In that period, Samsung Electronics has reported higher-than-expected earnings results or those similar to the brokerage firms' estimates in most cases.

Stock market analysts are claiming that the wide gap this time can be attributed to excessive expectations for the Galaxy S4. "It seems that the high specifications of the Galaxy S4 have resulted in an increase in raw material costs and marketing expenditure, which in turn have led to lesser earnings than expected," one of them remarked, adding, "In short, we anticipated too much perhaps." 

Moody's Downwards Adjusts Credit Ratings of Korea's Major Stock Firms

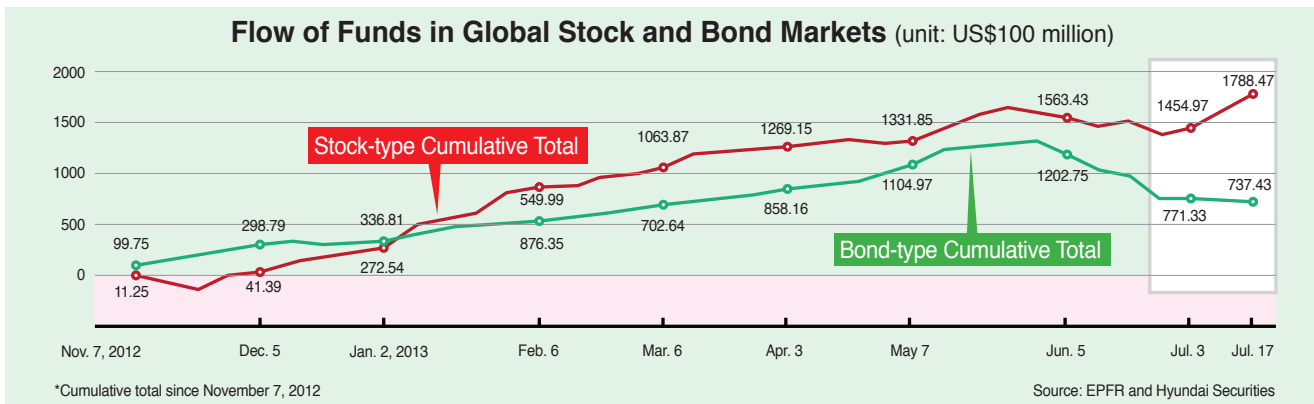
International credit rating agency Moody's announced on July 10 that it maintained its long-term corporate credit ratings for KDB Daewoo Securities, Samsung Securities and Woori Investment & Securities at Baa2, while adjusting the credit rating forecast downward from Stable to Negative. "The negative forecast reflects ongoing heavy pressure upon the potential profitability of stock firms and concerns over the unfavorable business conditions as of late," said Moody's analyst Park Hyun-hee. Furthermore, the agency pointed out that the profits of companies are decreasing as their brokerage income, accounting for 30% to 40% of their net operating income, is on the decline. As a matter of fact, the daily average turnover in the Korean stock market has stood at around 6.3 trillion won since the first fiscal quarter of 2012, which is the lowest level since the 2008 global financial crisis. Their heavier exposure to interest rate risks due to an increase in the bond holding balance and the implementation of the revised Financial Investment Services and Capital Markets Act, which is scheduled to take effect on August 29, were also taken into consideration.

"Allowing for the risks inherent to the securities industry, KDB Daewoo Securities' credit rating is unlikely to be adjusted upward in the short-term and the same forecast is applied to Samsung Securities as well," said the agency, continuing, "Furthermore, the rating could be lowered if the before-tax margin dips below 10% for two consecutive quarters or the net capital ratio goes down below 400%." It added that it would factor in the double leverage ratio of the KDB Financial Group and the progress of the newly allowed credit offering business in determining the credit ratings. "When it comes to Woori Investment & Securities, there is a possibility of downward adjustment on condition that the company is not acquired by a reliable financial institution during the course of its privatization," it went on.

"The enterprise credit business entails higher risks than the brokerage business," the analyst pointed out, adding, "As such, the risk management capabilities of brokerage houses will be tested down the road."

GLOBAL FUNDS

Inflow Changes from Bonds to Stocks



A great rotation, which signals a shift of funds from bonds to stocks, is underway as global interest rates show an upward trend. For example, the 10-year US Treasury Bond rate jumped to 2.483% on July 22 (local time), 0.871 percentage point higher than this year's low recorded on May 1. Global investors are moving out of bond-type funds and flocking to stock-type funds under such circumstances. The Korea Composite Stock Price Index (KOSPI), in the meantime, bounced back to 1,900 points on July 23, further increasing the expectations of many.

Concerns over an increase in interest rates are on the rise. "Investors are considering 3% the psychological barrier for 10-year Treasury Bonds, and if the interest rate goes over that, the US economy is likely to face some negative impact," said Frederic Neumann, co-head of Asian economic research at HSBC Holdings Plc, adding, "The problem is that the interest rate is rising too early and too fast."

According to the Korea Center for International Finance, four out of the seven major global investment banks revised upward their estimates for 10-year Japanese government bond yields for the third quarter of this year. Goldman Sachs predicted the annual yield rate would go up from 0.88% to 1.00% in the latter half and to 1.10% in Q2 next year. This was followed by Barclays (from 0.55% to 0.85%), Citi (0.60% to 0.80%) and Credit Suisse (0.55% to 0.85%).

The 10-year government bond yields of the US and Germany are also predicted to rise. On May 24, JP Morgan adjusted its forecast for the former from 1.85% to 2.25% for Q3, 2013.

Expert's are rather divided regarding the issue. Some see the interest rate hike as a natural consequence of the global economic recovery, while others interpret it as the beginning of a great rotation.

According to Emerging Portfolio Fund Research, a total of US\$21.3 billion flew into stock-type funds between July 11 and 17, US\$17.5 billion of this into US stock funds. The amount is the largest since 2009.

At the same time, an exodus of money from bond funds is accelerating, particularly in emerging economies. US\$1.3 billion was withdrawn from these countries in the past week, recording a net outflow for eight consecutive weeks. US bond funds lost US\$2.7 billion during the same period as well. This capital outflow has continued since the first week of June, with the exception of one week.

Last month, BOA Merrill Lynch's global research team held a press conference at their Manhattan office and stated that the popularity of bonds that had continued for 30 years or so was declining and that a great rotation would continue until 2015.


Time Not yet Ripe for Great Rotation

The declaration of the US that it would

reduce quantitative easing is regarded as the end of the low interest rate era, and thus signaling a sluggish bond market. However, the movement of funds is unlikely to be rapid during the great rotation.

"Although interest rates are going up, countries around the world have different growth potentials and volatility factors," said Choi Seung-yong, a Taurus Investment & Securities research analyst. He added, "Therefore, the recovery of stock markets is expected to occur at different speeds down the road."

However, there are some market insiders who think the great rotation will take more time to appear. "Investors are focusing only on the Fed's exit strategy," said Korea Investment & Securities researcher Lee Da-seul, adding, "However, it is probable that they will face great uncertainties first before expecting something from the stock market in the second half."

There is no saying if the trend will have a positive effect on the Korean bourse. Korea Investment & Securities analyst Roh Keun-hwan remarked, "The stabilization of the value of the US dollar and a recovery in corporate earnings are key for the domestic stock market to enjoy the great rotation." Meanwhile, Hyundai Securities researcher Kong Won-bae stated, "Considering the flow of index funds abroad and the national economic growth rate, Korea is one of the most attractive investment targets." 

BOND PRICE

Decrease Posing Significant Problem to Securities Companies

Things are currently quite bad in the local stock market. The stock price index has been drifting sideways between 1,800 and 2,000 points for almost two years; causing a significant drop in trade volume, while bonds, which were considered a relatively risk-free investment tool in the recent financial crisis and low interest rate monetary policy, have turned into a time bomb as the United States moves to stop quantitative easing.

According to the Financial Supervisory Service (FSS), the total bond holdings of the 62 brokerage firms in Korea amounted to 130 trillion won in the first quarter of this year. This sum represents approximately 52% of their total assets, which is excessively high when allowing for the fact that the percentage was just 10% for banks during the same period. This is because securities companies made up for a decline in brokerage income by means of bond investment.

Their bond holdings soared from 105.9 trillion won in Q1, 2012 to 120.5 trillion won and 134 trillion won in Q3, 2012 and Q1 this year, respectively. The bond price is likely to plunge down the road due to the exit strategy of the US, signaling huge losses. Under the circumstances, an increasing number of securities companies are laying off employees, cutting salaries and reducing the number of branch offices.

Stock Trading Volume Dips below Financial Crisis Level

The industry is highly concerned over the decrease in trading volume, which has lasted for roughly 15 months. The monthly turnover, which was as high as 116 trillion and 129 trillion won

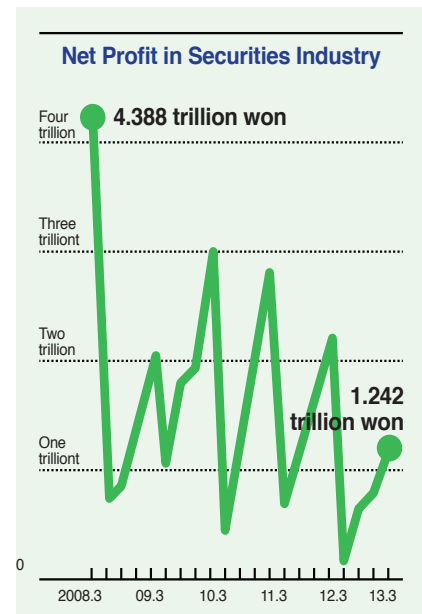
in September and October 2008, respectively, during the financial crisis, has remained below 100 trillion won since April 2012 with the only exception being in September 2012. As a result, 15 out of the 19 local stock firms that close their accounts in March recorded operating losses or a decrease in operating profits in 2012. The 19 companies' combined business income totaled 810.1 billion won during the period, down 45% from a year earlier. Furthermore, net income fell 47% to 524.1 billion won.

High Proportion of Bonds Exacerbating the Situation


The biggest problem lies in bonds, though. "The proportion of long-term bonds is high for banks and insurers, but most of the bonds held by stock firms are short-term ones that maturity within a year, which means losses could be far larger for them," said a financial industry source. "It seems that we don't have to step in right away because brokerage houses have substantially improved their net capital ratio during the global financial turmoil," the FSS remarked, adding, "We're closely watching the market for any risks, including the interest rate, which could arise with time."

Stock Firms Set Out to Streamline

In the meantime, Samsung Securities has recently carried out a restructuring program, closing seven of its business branches and sending 100 or so managers and assistant managers with five to 10-year careers to other subsidiaries in the group. Hyundai Securities is intending to take similar measures in the future. Hanwha Investment & Securities received requests for voluntary retire-



ment last year and did not recruit any college graduates in the first half of this year. In addition, it recently shut down some branch offices.

Furthermore, management salaries have been cut significantly. According to the Data Analysis, Retrieval and Transfer System (DART) of the FSS, the average salary dropped year-on-year at 18 of the 29 stock firms that disclosed the yearly wages of board members in 2012. For example, the individual average fell from 1.756 billion won to 274 million won between 2011 and 2012 at IM Investment & Securities, and from 2.111 billion won to 904 million won at Mirae Asset Securities. The number of executives and staff members at the 62 firms in the industry also declined, falling 1,438 to total 42,317 between the first quarters of 2011 and 2012. This downward movement has continued for five consecutive quarters. 

CORPORATE FINANCING

The Conditions Forecast to Worsen in Q3

It appears that Korean companies are rather pessimistic regarding their financial conditions for the third quarter of this year.

The Korea Chamber of Commerce & Industry (KCCI) recently conducted a Business Survey Index on Corporate Finance (FBSI) survey regarding their financial situation forecasts for Q3, and which was answered by 500 companies nationwide. The average result was 93, 7 points lower than the reference value and 2 points down from the previous quarter. Prospects have remained below 100 for nine consecutive quarters since Q3, 2011.

The FBSI, ranging from zero to 200, is a numerical expression of the flow of funds in industries. Higher than 100 signifies that more than 50% of respondents expect their financial situation to get better in the upcoming quarter. "The survey shows that the majority of companies in Korea are quite negative about their financial conditions amid the domestic recession, the United States' exit strategy from quantitative easing and concerns over a slowdown in the Chinese economy," said the KCCI.


Small and mid-size enterprises (92 points) were more pessimistic than big businesses. The figure fell by 2 points quarter-on-quarter. The figure for major corporations also fell below the reference value during the period.

By industry segment, only telecom (103) and automobile and auto parts (102) companies gave a positive response, with expectations that the semiconductor industry will rebound sooner or later and sales of automobiles will rise. Meanwhile, those in the machinery and metal manufacturing (95), textile and clothing (94), oil and chemi-

cal (92), steelmaking (89), construction (88) and shipbuilding and shipping (85) industries gave gloomy prospects. Respondents also answered that overall financing market conditions will remain at the 95 point level for this quarter. By financing means, banks recorded 98 points, followed by the non-banking sector (97), corporate bills (97), stocks (96) and corporate bonds (94).

"With uncertainties in the financial market on the rise, companies are hav-

ing a hard time raising funds through the issuance of corporate bonds," the KCCI stated, adding, "Vulnerable sectors, that is, shipping, shipbuilding and construction and SMEs, are likely to experience even bigger financial difficulties."

"The quantitative easing policy of the US is coming to an end, increasing the possibility of foreign investors leaving the local stock and bond markets," said Jeon Su-bong, director of the First Research Division of the KCCI. 

Corporate Bond Market

Government Injects 6.4 Trillion Won to Stabilize Debenture Market

The Korean government is to spend 6.4 trillion won in order to stabilize the corporate bond market. The announcement was made by the Financial Services Commission on July 8.

According to the announcement, corporate bonds will be underwritten by organizations such as the Korea Development Bank in order to issue primary collateralized bond obligations (P-CBOs). The Korea Credit Guarantee Fund (KCGF) provides credit enhancement during the course. The KCGF offers 150 billion won and the Korea Finance Corporation spends 350 billion won, while another 350 billion won is invested by means of financial support. The Bank of Korea supplies necessary liquidity.

According to the rules of the KCGF, the organization can stand surety for up to 20 times the amount of guarantee funds. However, the actual amount guaranteed is estimated at approximately 6.4 trillion won because the debentures covered by the P-CBOs have relatively lower credit ratings.

The funds are available for companies whose corporate bonds reach maturity between the second half of this year and the end of next year. It is likely that most of the beneficiaries will be those in the construction, shipping and shipbuilding industries. Of debentures maturing in the latter half of 2013, A-grade or lower amount to 10 trillion won, with approximately 4.7 trillion won in bonds found in the three more vulnerable sectors.

At the same time, the government is to provide tax support for high yield funds. Separate taxation is to be applied to the dividend income tax of corporate bond funds whose ratio of red bonds with a credit rating of BBB or lower is at least 30%.

The qualifications regarding the issuers and investors are to be strengthened in an effort to revitalize the recently introduced qualified institutional buyer (QIB) system. In addition, regulations are to be abolished, giving a much needed boost to corporate bond funds, while the Asset-Backed Securitization Act will be revised so that companies can issue asset-backed securities with greater ease

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CREATIVE ECONOMY

Emerging as Trump Card to Cope with Shrinking Growth Potential

The so-called 'creative economy' is the Park Geun-hye administration's key economic policy agenda. It can be defined as the creation of economic values by means of convergence between science technologies, industries and culture to keep in step with the new paradigm of economic globalization and diversification.

At the center of the quest is the Ministry of Science, ICT and Future Planning. The organization is regarding the second half of this year as a critical momentum for the pursuit. It is planning to spur the development of creative economy based on the basic philosophy that information and communications technology forms the foundation of the cause.

The ministry has recently announced five action plans to that end -- establishment of creative economic ecosystems, enhancement of national scientific and technological standards, advancement of the ICT industry, realization of creative economy to share the

benefits with all and improvement of the efficiency and productivity of the governance.

The business community is actively taking part in the government's efforts, too. Federation of Korean Industries (FKI) chairman Huh Chang-soo said on July 24 at his opening address for FKI Summer Forum 2013, "The Korean economy is facing a great challenge both at home and abroad and now is the time for us to make a new breakthrough utilizing the concept of creative economy."

He went on, "Our current situation may be the beginning of an overall decline in economic growth potential rather than a temporary shock, and I would like to stress that this challenge can be dealt with only by seeking new ways." He mentioned creative economy as the answer and asked the government, the business world and the general public to work more closely together with one another. "Korean companies' priceless experience of the Miracle of the Han River will be a valuable asset for the creative economy," he con-

tinued, adding, "They should keep making aggressive investments in new industries and the government should do what it can do to give a new shape to the industrial and economic environments and infrastructure."

Public organizations are currently working on diverse policy and support measures to accelerate the advent of creative economy. Companies are coming up with various related plans for R&D, capital investment and job creation while colleges, industrial associations and the academia are discussing relevant issues in a series of seminars and forums. Nevertheless, the people at large still have no confidence about what influence the creative economy will have on their everyday lives and whether it will really make new jobs.

People's Participation is Essential for Creative Economy

The government's and the business community's investment and employment



plans seem to concentrate on financial assistance, system improvement and R&D investment for now. However, money alone cannot achieve the goals of creative economy and job creation. What is more important is to allow it to flow into the entire economy so that even the middle and working class can feel the change.

There is no doubt that big business have their own merits in terms of expertise, information collection capabilities and R&D for business innovation but they might lack flexibility and out-of-box thinking due to their own organizational structures and systems.

"If the lack of creativity and flexibility can be supplemented by small and midsize enterprises, the effect of major corporations' plans can be boosted," said professor Song Oh-yeong at Chung Ang University. He explained, "This will be even more so if the awareness increases on the part of the general public and their active participation is guaranteed."

Another essential part is the fostering of human resources. The thing is, today's climate and framework of education in Korea is far from being capable of supporting young talents with brilliant and inventive ideas.

"It is Korean education that suppresses creative thinking," Yonsei University professor Kim Sang-geun affirmed, continuing, "All of the children in Korea struggle only to enter high-ranking colleges without any hope or dream." The professor pointed out, "Korean colleges are like apex predators that disturb the creative ecosystem but the key of

the ecosystem is symbiosis."

Cultural Renaissance, Groundwork for Creative Economy

In its reports published since 2008, the United Nations Conference on Trade and Development (UNCTAD) has defined creative economy as the creation of added values by combining innovative products, services and technologies, predicting that the culture industry will take the leading role in it.

The industry in European nations such as Britain, Finland and the Netherlands has grown mainly by their cultural and artistic assets. For example, the National Skills Academy (NSA) of the UK, which was opened in 2009, has acted as a bridge between industry and culture while running customer-oriented training programs. The membership organization is in cooperation with 200 or so theaters, 20 colleges, live music employers nationwide, etc.

Korean president Park Geun-hye, during the first meeting of the Cultural Renaissance Committee as of late, said, "Cultural renaissance is the alchemy of the 21st century and the foundation of the creative economic ecosystem to add new value to the other industries and the government will put great weight on it to promote creative economy."


She remarked, "Culture, when combined with science,

IT and the other sectors, can infuse creativity into them as seen in the cases of the Beatles and Harry Potter. Let's make good use of Hallyu for the globalization of the Korean language, Korean food and construction and so forth to further the development of our economy."

What Would Be the Possible Limitation of Creative Industry?

In the meantime, some experts are pointing out that the realization of creative economy is being led by big businesses rather than individual entrepreneurs or small firms even though it has put emphasis on the creative thinking of individuals.

The same thing has been pointed out in Britain as well, which has focused on the growth of the sector for as long as 15 years. There, it is said that creative industry is like a sandglass, where a very small number of corporate giants and very tiny firms are at both ends and precious few midsize companies are in the middle.

John Newbigin, author of *Creative Britain - New Talents for the New Economy*, advised that public policy should be able to ensure the sustainability of business continuity in the sector. "Most of the British government's support measures in the industry were about setting up new firms rather than how to better nurture them, and thus it would be well advised to present long-term assistance strategies now." 



INTERVIEW

Overhauling the Economic Structure of Korea



Lee Sang-mok, Vice Minister of Science, ICT and Future Planning

“The notion of a creative economy is to overhaul the economic structure of Korea, a structure that has lasted for the past 40 years, and thus will require consistent effort and active participation by the general public and all corporate entities,” said Vice Minister of Science, ICT and Future Planning (MSIP) Lee Sang-mok in a recent interview with BusinessKorea. He worked as Minister of Science and Technology, the predecessor of the MSIP, in the 1980s, and built his career in government agencies and research institutes in the field ever since.

You are one of the leaders in charge of planning and realizing a creative economy; one of the most important pursuits of the Park Geun-hye administration. Please give your thoughts on this crucial role.

I am very proud of this position, but at the same time feel huge responsibility as a high-ranking official of the ministry in charge of an issue of such great interest. We have prepared action plans for a creative economy since the launch of the ministry and announced these plans on June 5 of this year. The idea is to switch Korea's economic development paradigm from that of an imitation and fast-follower strategy to one of self-driven growth based on creativity.

It seems that opinions are split regarding the concept of a creative economy. What is the official definition?

A creative economy is not so much an academic notion as a strategic concept for the creation of new jobs and markets. Its goal is to combine the creative imagination of the people with advanced information, communications and scientific technologies in order to seek new economic opportunities while shoring up existing industries at the same time.

The government recently announced specific plans for the establishment of creative economic ecosystems. What details and tasks are to be handled first?

The plans are to create a virtuous cycle of business foundation, growth, investment collection and restart in which both individuals and businesses can turn brilliant ideas into business opportunities, as well as being free to have a second chance if they fail. To this end, we will provide more education and training for prospective entrepreneurs, as well as helping them with their efforts.

Those in the early stages of business will benefit more greatly from angel investment, income tax deduction, crowd funding and incubating services. These measures will help them take root in the business world.

In addition, during the growth stage, they will be given the investment and support they need through venture capital and private equity funds so that they can make successful inroads into overseas markets. The measures provided during this phase include the protection of intellectual property rights, advanced technological evaluation systems, and technology guarantee funds.

The key to a creative economic ecosystem lies in the safety net with which venture entrepreneurs can give take risks without having to worry about the failure. It is in this context that the Korea New Exchange (KONEX), a stock market dedicated to small businesses, was established, joint surety abolished, and various financing, consulting and M&A assistance supports were put to the anvil.

The ministry has promised that it will create whole new services based on Korea's world-class Internet and information and communications technologies. Can you give us some examples of these?

Cloud computing, big data and Internet of Things have been selected recently as key future trends of the IT industry. A large number of global enterprises are moving nimbly in these emerging fields in an attempt to take the initiative.

Well aware of the significance of such new industries, the ministry announced plans for the promotion of new, Internet-based industries on June 5 of this year. The Internet sector has a great impact on all fields of society, ranging from the daily lives of people to welfare, culture, and security. The ministry will continue to do its utmost to prepare the industrial foundation and boost initial

demand.

What are the policies and investment plans of the government in regards to enhancing R&D and innovation?

The government is planning to pursue a creative economy by means of R&D that benefits all people. It is going to make greater investments in basic sciences, small and start-up firms, as well as helping convergence industries, while at the same time strengthening its capabilities in sectors directly related to everyday life, such as disaster control, medical and healthcare, education and public services.

Among all things, the most important part of national innovation enhancement during an era of creative economy is creativity based on novel ideas and human resources not afraid of failing. In this vein, the ministry is working on new HR programs in tandem with the Ministry of Education so that more and more people can spread their wings and follow their dreams.

Specifically, the programs will help primary and secondary students become more interested in and get a better grasp of math, science and the arts in order to boost their creative power. Furthermore, the curricula of local colleges specializing in science technol-

ogy will be renovated so as to facilitate more in-depth research activities and expedite the advent of a creative economy.

Private-sector investment is very important for a creative economy. What is the government planning to do to induce this?


A variety of private-public joint funds are scheduled to be raised, including the Future Creation Fund and the Young Entrepreneur Fund. The public sector is going to shoulder possible losses in those fields with high investment risks, and distribute profits on a preferential basis so as to mitigate burdens on the part of private-sector investors and thus encourage their participation. The government has also increased the size of angel investment matching funds.

Another tool is crowd funding, which can be defined as multiple investors financing certain ideas and technologies that are considered to be promising and profitable enough. This will make it easier for start-up firms to get the financial resources they need during the early stages.

Some skeptics are pointing out that the concept of a creative economy, one led by the government and based on science and ICT, will only disturb the national economic ecosystem. What do you say in regards to this?

I believe that the private sector should take a leading role in the quest for a creative economy, while the government acts as a supporter. We also focused on the revision of laws and regulations and infrastructure establishment in establishing action plans in order to help individuals and corporations fulfill a pivotal role.

I would like to emphasize that the concept is to shift the paradigm of economic development by utilizing science and ICT, two of Korea's strong points. However, these two themselves do not limit the scope of a creative economy by any means.

As stated in the action plans, science and technology that form the foundation of a creative economy cover the overall economic, social, education and cultural elements required to establish an ecosystem. Pessimists' remarks about the scope of a creative economy have missed the mark. 



SMEs to Assume Leading Role in Creative Economy

By Seong Yoon-mo, Director of SME Policy Bureau of SMBA



Seong Yoon-mo, Director of SME Policy Bureau of SMBA

Elvin Toffler wrote in his book *Third Wave* that the information revolution defies any prediction about the future, yet the pressure for the change is on the rise.

As a result of the development of information and communication technology, information is now handled and processed by a greater number of people and variety of fields than ever before. This, in turn, has led to a shift in the paradigm of information production and consumption, meaning that previous economic growth models are no longer valid. Under such circumstances, economic prosperity can only be enjoyed by those that successfully adapt.

Today's Korean economy is under similar pressure. Innovation-oriented companies such as Google, Amazon, Twitter and Facebook are leading the creation of new added value in the global economy, yet Korea is still dependent on economic growth led by a small number of big businesses. There is no doubt that the

growth model presented the country with the "Miracle of the Han River" during the past five years. However, it has accelerated the concentration of economic power and exacerbated the wealth divide between major corporations and small firms. Furthermore, the decreasing employment capacity of chaebols is posing a social problem as they continue to move production facilities out of the country.

This is why the Korean economy has to move from an industrial economy focusing on labor and capital input towards that of a creative economy revolving around innovative technologies and brilliant ideas. The creativity of individuals and enterprises needs to be better utilized in order to create jobs, new markets and business opportunities.


For the realization of a creative economy, young people with novel ideas should be allowed to freely start up and grow their own firms; confident in their future growth. Outstanding human resources can turn their attention towards small firms and venture companies only when they are convinced that they can become giants. In this vein, the establishment of industrial ecosystems promoting the growth of nascent firms is key to the concept of a creative economy.

However, the reality is not that optimistic. Small and mid-size enterprises (SMEs) in Korea cannot benefit from such support and also have to face diverse regulations due to dichotomous corporate policy characterized by so many restrictions on big businesses and the protection of SMEs once they fall out of their category. As a result, more than a few small-sized firms are opting to stop growing.

To deal with the problem, the Park Geun-hye administration is setting up the 'Ladder of Hope for the Growth of SMEs'. At the same time, it has torn down the barrier between the promotion policy for small firms and enterprises of middle standing, while giving total decision-making rights to the Small and Medium Business Administration (SMBA).

The SMBA worked with related authorities and came up with measures for better venture financing ecosystems in May, followed by productivity enhancement plans for SMEs the following month in an effort to expedite the advent of a creative economy. The purpose of these plans is to renovate the industrial sector by improving venture and start-up infrastructure.

Furthermore, the organization is to announce a master plan, named the 'Ladder of Growth for Mid-size Enterprises', so that more small firms can grow to this level. Specifically, it will abolish regulations on mid-size enterprises in an attempt to encourage the growth of tiny ventures, while helping with R&D, employment and overseas market penetration in order to speed up globalization. In the long-term, the plan will contribute greatly to the government's efforts to nurture SMEs into the driving force of a creative economy.

Just as important are the endeavors of companies themselves. As Peter Drucker said, entrepreneurs are in the constant pursuit of innovation, adapting to changes by making use of them. Only those creating new opportunities through innovation and challenge will be allowed to enjoy future prosperity in the present era of creativity-oriented economy. 

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30 BUSINESS GROUPS

Taking 470 Billion Won in Dividends through Internal Transactions

It has been discovered that the 30 major groups in Korea took approximately 470 billion won in dividends from subsidiaries during the past five years through intra-company transactions. Chaebul.com announced on July 7 that the 30 groups, all of which are subject to taxation on inter-subsidiary transactions, paid dividends worth 469.6 billion won to their heads and their families between 2008 and 2012.

The largest amount was paid by the Hyundai Motor Group. Hyundai Glovis paid 78.1 billion won in dividends to Hyundai Motor Company vice chairman Chung Eui-sun and chairman Chung Mong-koo during the period. They also took 66.6 billion won from Hyundai AMCO. Advertising subsidiary Innococean paid 37.2 billion won to the chairman, vice chairman and Innococean advisor Chung Sung-eui, who is the eldest daughter of the chairman.

In addition, Hyundai Mobis, Hyundai Autoever and Samwoo paid 48.5 billion, 9.9 billion and 5.3 billion won, respectively. In total, such provisions amounted to 245.6 billion won.

Hyundai Motor Group was followed by the SK and GS Groups. SK C&C, of which 40% of shares are owned by SK Group chairman Choi Tae-won and his younger brother and SK Happiness Foundation director Choi Ki-won, provided them with 81.5 billion won. The inter-subsidiary transaction ratio was no less than 64.8% in SK C&C.


Electrical work company GS Neotek paid 49 billion won to GS Neotek chairman Huh Jung-soo, who is the sole owner of the company, during the same period. He took approximately 10 billion won each year from the company and

whose internal transaction ratio stands at 64.9%.

Real estate leasing and development company Seungsan, whose shares are owned by GS Energy vice chairman Huh Yong-soo and his family members, provided dividends of 18 billion won to them. They also took 7.8 billion won and 4.6 billion won from GS ITM and Oksan Distribution, respectively. Such dividends totaled 79.4 billion for them.

In the meantime, Samsung Group chairman Lee Kun-hee and his family members took an especially large amount of dividends from system integration service provider Samsung SDS. For example, Samsung Electronics vice chairman

Lee Jae-yong, Hotel Shilla president Lee Bu-jin and Cheil Industries vice president Lee Suh-hyun received 14.1 billion won from Samsung SDS. The sum amounted to 22.4 billion won during the five years, including 5.8 billion won from Samsung Everland and 2.5 billion won from Samsung SNS.

The STX Group paid large dividends to the owner's family despite severe financial difficulties. IT service subsidiary ForceTEC paid 9.6 billion won to STX Group chairman Kang Duk-soo, who owns 69.4% of the affiliate's shares, while five billion won was paid by STX Construction to the chairman and his two daughters. 

Value of Stock Held by 30 Business Groups' Heads Fell 2.5 Trillion won

It has been found that the value of stock owned by the heads of the 30 major business groups in Korea decreased approximately 2.5 trillion won in the first half of this year.

The Korea CXO Research Institute evaluated their stocks on July 5 and announced that the appraised value increased for only 9 out of the 30 corporate heads between January 1 and the end of June 2013. The total value declined approximately 7.9% from 32.673 trillion won to 30.107 trillion won during the period. They were found to be in possession of 86 companies' stocks, with the prices of 56 of them falling during the past six months.

It was KCC chairman Chung Mong-jin who posted the largest increase in appraised value. KCC's stock price jumped 8.6% in H1, to raise the amount from 564.2 billion won to 612.8 billion won. Park Sam-koo of the Kumho Asiana Group (20.8% up to 70 billion won) and Kolon Group chairman Lee Woong-yeol (3.3% up to 176.7 billion won) also enjoyed increases.

In contrast, Samsung Electronics chairman Lee Kun-hee's appraised value fell 5.6%, or 673.1 billion won, in the six-month period from 11.978 trillion won to 11.304 trillion won as the share price of Samsung Electronics plunged 1.166 trillion won, although that of Samsung Securities rose by 514.8 billion won.

Hyundai Motor Group chairman Chung Mong-koo's ended up at 6.216 trillion won as of the end of last month, a fall of 7.0% or 465.5 billion won, while GS Group chairman Huh Chang-soo's fell 42.2% from 699.5 billion won to 404.7 billion won.

CHAEBOLS' RELATED-PARTY TRANSACTIONS

National Assembly Opts to Focus on Unfair Trade Regulation

Following growing public opinion, the government finally made a concession regarding its legislation plan which some believe could hamper business activities. However, the economic community continues to argue that the restriction will compromise the efficiency of their business management.

The National Policy Committee of the National Assembly discussed the amendment to the Monopoly Regulation and Fair Trade Act on June 24 with regards to how to put a brake on enterprise owners' and their family members' reckless and illegal profit taking. The most controversial issue of this was whether to add extra regulatory provisions to Article 3, which concerns the prevention of a concentration of economic power.

Article 5 of the law, which bans unfair trade practices, stipulates that any violation of the fair trade order caused by such practices must be proven by the Fair Trade Commission. This means that actions less related to limiting competition, e.g. unfair support for owners' individual family members and the usurpation of corporate opportunity, can often go unpunished. As a result, there have been growing calls for the necessity of additional provisions.

However, ruling and opposition parties have agreed that such an addition could make it more difficult to determine the legality of economic power concentration, thus prohibiting inter-company transactions from the get go. Ruling Saenuri Party lawmaker Kim Yong-tae was at the vanguard of the opposition.

At present, the consensus is that Article 5 of the Act should be reinforced. Specifically, the parties are planning to put restrictions on three types of actions -- transactions with significant more preferential conditions than normal, the signing of large-scale contracts without a proper decision-making process, and



Korea's National Assembly Meeting


the provision of profitable business opportunities to owners' families. They also agreed to include firms benefitting from unfair trade, as well as those directly involved, as well as prohibiting big businesses' practices of only taking profits through subcontracting and not making any economic contribution to their subcontractors.

The business community is claiming that these regulations will affect the domestic economy by disrupting even normal intra-company transactions. "These types of transactions are concentrated in a small number of industrial segments, such as advertising and transport logistics, where they are necessary for various reasons. These transactions have increased corporate management efficiency by means of vertical integration, incorporation and so forth," said an official at the Federation of Korean Industries, adding, "Tighter restrictions on inter-company transactions will result in greater benefits for foreign companies only."

In the meantime, the National Policy Committee passed revisions to the Financial

Holding Companies Act and the Banking Act on the same day, and which are designed to reduce industrial capital shareholding in banks from 9% to 4% and strengthen the separation between banking and commerce. In 2009, the government had eased related regulations in an attempt to enhance the competitiveness of the banking sector.

Furthermore, the parties came to a consensus regarding the Act on Reporting and Use of Certain Financial Transaction Information, so that the parties to a transaction can be given a notice when the Financial Intelligent Unit (FIU) submits their financial transaction data to the National Tax Service or the like. Another meeting is scheduled for June 25 to decide on the specific scope of the notification.

Nevertheless, they failed to concur on the issue of franchise protection, a ban on new circular equity investment, and how to improve the evaluation of the eligibility of major shareholders in the non-banking sector. These matters are scheduled to be handled in the National Assembly session in September. 

WORK FUNNELING REGULATION

Enriching Foreign Companies



There have been continuous side effects of foreign-affiliated companies taking reflected profits from regulations related to large enterprises, such as the designation of suitable business areas for small and mid-sized enterprises (SMEs) and work funneling.

While regulations for protecting domestic SMEs are busy suppressing large enterprises, foreign-affiliated companies have formed a blind spot from which they poach opportunities from domestic MSEs and expand in Korea.

According to Bloomberg on July 22, DENSO Corporation, a member of the Toyota Group of Japan, has decided to expand its manufacturing factory in Korea. Analysis said, "The government's plutocracy regulations have opened new business horizons for the Japanese company." It seems that foreign-affiliated companies have found a loophole and are enforcing strategies for Korean market invasion after witnessing a rift in the vertical integration system due to the government and its economic democratization movements, such as regulating how large enterprises funnel business and support sister companies.

In fact, DENSO Corporation, ranked the second largest automobile parts manufacturer in the world, held a ground break-

ing ceremony on July 1 to begin a large-scale expansion of its factory in Changwon City, South Gyeongsang Province. The construction received a total of seven billion yen in investment to largely expand the existing Changwon City factory, and is expected to be in operation by June next year.

Furthermore, DENSO Corporation plans on building an automobile parts research center in Changwon City and will continue to extend its automobile parts supply business for Korean complete vehicle industries by investing an additional 400 billion won by 2020. This will allow DENSO to not only compete directly with domestic manufacturing enterprises such as Hyundai Motor Group affiliate Hyundai Mobis and sister company Mando, but also seek out more business opportunities depending on the future progress of economic democratization.

Businesses expect that such movements from DENSO Corporation will trigger similar action from other foreign companies. A senior business official, "Some foreign-affiliated companies in parts and materials business had already been planning to enter the Korean market by the time the government began discussing economic democratization," adding, "This may create a negative impact on Korea's industrial ecosystem as the nation lacks competition in the areas of


parts and materials."

It has been claimed that even if foreign-affiliated companies do not aggressively enter the niche market, domestic companies may end up looking for them first to handle work.

Bae Sang-geun, chief of the economic affairs division at the Federation of the Korean Industries (FKI), explained, "Domestic enterprises in System Integration (SI) and advertisement industries, which are subject to funneling regulations, are likely to give work to foreign companies since these foreign affiliates have better security and proven competitiveness, while domestic companies risk internal data and information disclosure."

In addition, foreign-affiliated companies are accelerating their Korean market advance, while large domestic enterprises remain banned from expanding under the regulation regarding designating SME suitable business areas. For example, in the Light Emitting Diode (LED) industry, designated to SMEs, China's top LED company King-sun moved in to intensify its operations in Korea.

Japanese food service enterprises, such as sushi, lunch boxes, fast food, and bars, are also increasing their number of franchises in Korea, while large domestic enterprises face bans on the launch of additional food services. As for the maintenance, repair, and operations (MRO) businesses, foreign companies such as Office Depot have replaced large domestic enterprises, putting the original intent of reviving domestic SMEs to shame.

"Movements like the work funneling regulation and designation of SME suitable business areas are meant to relieve the concentration of economic power from large enterprises and revive SMEs," said an industry official, adding, "Unfortunately, there is no way to stop some of the world's top foreign-affiliated companies from taking over the workload." 

SAMSUNG CHAIRMAN LEE KUN-HEE

Why Such a Prolonged Stay in Japan?



Lee Kun-hee
Chairman of Samsung Business Group

Samsung CEO Lee Kun-hee's overseas stay has been extended.

Chairman Lee, who left for Japan on June 20, is still yet to return.

On June 16, Lee summoned the top management, including Samsung Electronics vice-chairman Lee Jae-yong and Samsung Electronics Digital Media & Communications division vice chairman Choi Ji-sung to discuss current management issues.

The business community predicts that his stay in Japan may continue.

Since Samsung Group has not given an adequate explanation for his overseas stay, the story is drawing people's attention.

The financial circle is speculating that because this year is the company's

20th anniversary of the "new management," chairman Lee is meeting with acquaintances and experts abroad and concentrating on plans for the group's future.

He left for Hawaii on January 11 and returned on April 6 after three months abroad, which included trips to Japan and Hawaii.

During this trip he has so far called Samsung's top level executives into Japan twice; in February and April for briefings.

Following his return, Chairman Lee, who went to the Samsung Electronics' Seocho Building once a week, left for America on May 4 to accompany President Park Geun-hye on her visit to the US.

Returning on May 21st, he then left for Japan again on June 20, just one month after his last trip.

He is reported to be staying again in Japan, after moving from there to Paris on June 30 in order to take care of some personal business.

In total, he has been overseas for four and a half months.

During this time, vice-chairman Lee Jae-yong has been acted on his behalf.

It was vice-chairman Lee who greeted President Park Geun-hye when she visited Samsung's semiconductor plant

in Xian, China on June 30.

He has also met key players in the IT industry, such as Microsoft founder Bill Gates, Google co-founder Larry Page and Facebook co-founder Mark Zuckerberg.

James Horton, Honorary Chairman of Corning, is the only figure that Chairman Lee has met with this year.

Many people in the business community think that Mr. Lee's extended stay overseas is attributable to his health.


There has been lots of speculation that he has remained in foreign countries with good weather in order to avoid cold weather and maintain his health.

Samsung group is putting more weight on his plans for management.

An official with Samsung Group said, "When it comes to health, medical professionals in Korea are superior to those in Japan," "I don't know what the exact reason is, but its presumably because his management plans are taking longer than expected."

Meanwhile, public attention is focused on Samsung's top in-house legal counsel, Lee Jong-wang, who recently participated in a top management briefing in Japan.

Lee Jong-wang, former chief prosecutor of the Seoul Central District Prosecutors' Office, left Samsung in November 2007 after lawyer Kim Yong-chul, formerly head of Samsung Group's legal affairs team, disclosed details of allegations that Samsung had been operating slush funds. He returned to work as a legal advisor in June 2010.

It is known that Lee Jong-wang has the full confidence of Chairman Lee, and who often seeks his advice regarding legal matters. 

SAMSUNG ELECTRONICS

In Trouble for Smart Phone-related Accidents



Picture of the Galaxy S4 and the battery charger claimed by Sarah Shurrab to have burned and exploded while charging.

Samsung Electronics is baffled by a series of accidents abroad associated with its flagship smart phones. In particular, the incidents are tarnishing the image of the global leading handset manufacturer as the rumors about product flaws are spreading via SNS channels even before the causes are clarified.

The Emirates247, a news agency in the UAE, announced on July 10 that a woman in Abu Dhabi, named Sarah Shurrab, experienced explosion while charging her Galaxy S4. She was quoted as saying, "I was awakened by a smell of burning and found my Galaxy S4, which I had purchased at an authorized retail store in late May this year, burning at the charger terminal." She added, "I don't know how to explain this and I'm just so disappointed and shocked by this accident."

According to her, she woke up at around

two o'clock at night, about three hours after connecting the charger with the handset. She reported the accident to a Samsung Electronics store located in the Gulf region and received a reply that the company would go over the situation to find out the exact cause of the incident. However, the store where she had bought the phone has declined to exchange the product with a new one. "Samsung Electronics is just passing the bucks while refusing to let me have a new product," she continued.

The Emirates247 also contacted Samsung concerning this issue and received an email. "We're looking into the possible causes of the accident and have always kept the promise with our customers to offer the safest and the most comfortable user experience by sticking to our quality and safety management standards," the email read,


which is a somewhat stereotyped phrase.

In the meantime, the photos of the phone and the charger in question have spread like wildfire via SNS channels. This is the first time that an explosion accident involved with the Galaxy S4, which was released in 60 countries around the world in late April, is given publicity. The local subsidiary of Samsung Electronics is planning to pick up the handset in question to figure out the cause of the accident.

Likewise, an 18 year-old girl in Neuchatel, Switzerland reported a similar incident on her Facebook page and to local news agencies, claiming that her Galaxy S3 blew up all of a sudden in her handbag to cause her to suffer second- to third-degree burns. The company is said to be looking into the phone

in Korea.

The thing is that the news and rumors about these accidents are spreading fast via SNS even before the causes are found out. The explosion of the Galaxy S3 that occurred back in June in Ireland has turned out to be a fabrication only after the photos were seen by a huge number of people worldwide.

Those who have heard the news are roughly divided into two groups, one claiming that the incidents are attributed to the lack of carelessness on the part of the customers and the other advocating the possibility of the defects of the products. However, such controversy itself could have a negative impact on the Galaxy S4, the latest flagship smart phone of Samsung Electronics, on which the company is concentrating its marketing resources. 

FLOOD OF NEW SMART PHONES

Expected to Hit the Market in H2 This Year

The local smart phone market is expected to go through an upheaval in the second half of this year as next-generation handsets employing LTE-A, flexible display and smart watches are hitting the market, where the hardware competition has already reached its peak, one after another. Under the circumstances, the average product lifecycle is likely to be shortened to affect the telecom charges of households.

"It is inevitable for us to spend huge money on marketing in the latter half of 2013, even though the government is restricting the consumer subsidies, since a series of new phones are slated to be released," said a local mobile carrier. The expenditure is expected to be concentrated on LTE-A, or Long Term Evolution Advanced.

Phones Adopting LTE-A and Flexible Display and Smart Watches are on Standby

LTE-A is characterized by its speed up to twice faster than LTE. In Korea, the technology was commercialized for the first time on June 26 this year, when Samsung Electronics launched the Galaxy S4 LTE-A via SK Telecom. The sales volume has reached 150,000 units during the first 14 days in the market.

LG U+, on its part, started its LTE-A service on July 18 with another version of the same model that uses LTE-A for not only data communication but also voice calls. Samsung Electronics is supplying the phone to KT as well.

In the meantime, smart phones adopting plastic OLED display are unveiled in H2 this year, too. Considered as the step preceding flexible display, plastic OLED display is rarely broken unlike the glass panels of existing smart phones because a thin film capsule is manufactured after RGB OLED materials are applied onto a plastic substrate. Industry

insiders are predicting that Samsung Electronics will use the technology in the Galaxy Note 3 and exhibit the product in September at the Internationale Funkausstellung (IFA) in Germany.


The development of smart watches is picking up speed as well. Samsung Electronics has recently registered the trademark of Samsung Gear with the US Patent and Trademark Office (USPTO) and the Korea Intellectual Property Office. Its first commercial smart watch product is expected to be available from September or October in the form of auxiliary device for the Galaxy S3, supporting such functions as voice call, text messaging, e-mailing and Web searching.

Burden Likely to Increase on the Part of Consumers

The flood of such innovative new products is likely to increase the financial burden on local consumers though. According to market research firm Gartner, the average smart phone factory price of Korea, US\$643.3, is second only to Hong Kong. This can be attributed to the high specifications and prices of the products. It is likely that the launching of the new products will create new demands and further increase consumers' payment down the road.

"It was just two months ago that the Galaxy S4, the previous flagship model of Samsung Electronics, was released," said the Citizens' Coalition for Economic Justice, adding, "The product lifecycle has been shortened from about six months to a couple of months now." In response, an industry source explained, "The release of new products is no option if we are not to fall behind in the fast-changing IT market and I am sure that the trend is positive because it can contribute to consumers' rights to choose."

"It seems that market participants are

expecting too much from us," said Shin Jong-kyun, president of the IT & Mobile Division of Samsung Electronics. The company achieved record high earnings in the second quarter of this year, only to see its stock price sliding nonetheless. His remark implies that how much trouble local smart phone makers have in creating a new growth momentum. 

Korean Companies' Dependence on Components and Materials Imported from Japan (unit: %)

New Smart Phone Products Scheduled to be Released in H2

LTE-A Phones

-Samsung Electronics Galaxy S4 LTE-A	-June or July
-LG G2	-August
-Pantech Vega LTE-A (tentative name)	-August
-Apple iPhone 5S	-September (estimated)

Smart Watches

-Samsung Electronics Galaxy Gear(tentative name)	-September or October
-Apple iWatch	-Q4 (estimated)

Plastic OLED Display Phones

-Samsung Electronics Galaxy Note 3	-September (estimated)
-LG Electronics' next flagship model	-Q4

*Source: Each company

APPLE IN KOREA

Korean Smart Phone Consumers Are Most Satisfied with Apple's After-sales Service

Think Different



Apple Computer, Inc.

Korean consumers picked out Apple as the smart phone manufacturer providing the most satisfactory after-sales service.

Market research firm Marketing Insight conducted a related survey between March and April, answered by 44,168 local smart phone users aged from 14 to 64, and announced on July 2 that the degree of satisfaction added up to 52% for Apple, 50% for Samsung Electronics, 46% for LG Electronics and 34% for Pantech. The percentages represent the number of respondents who gave at least eight points on a scale of one to 10.


Only 17% of iPhone users received after-sales service within a year from the purchase. The ratio totaled 33% for Pantech, 31% for Samsung Electronics and 25% for LG Electronics. The overall average was 29%.

The ratio of consumers that received after-sales service twice or more was 25% for Apple, followed by LG Electronics (38%), Pantech (41%) and Samsung Electronics (44%). Also, one-fourth of the respondents who used the iPhone answered that they failed to shoot the trouble even after warranty service. The percentages were found to be 29% for Samsung, 33% for LG and 40% for Pantech for the same question.

In the meantime, the average level of individual satisfaction with after-sales service was at 711 for Samsung Electronics on a scale of 1 to 1,000, beating Apple (695 points), LG Electronics (682) and Pantech (612). "It is quite expected that Samsung Electronics' warranty service fell behind that of Apple though in

part," said the research firm, adding, "It seems that not a few iPhone users are content with Apple's refurbishing service because they feel like they get a new product without trying to figure out which component is malfunctioning."

Apple and the Korean manufacturers showed substantial difference in the methods of service. Apple coped with 65% of the requests by means of product exchange but the ratio was as low as 10% for the local smart phone makers. 63% of Samsung Electronics' after-sales service was made by repairing or replacing the components.

20% of the respondents said that they brought their handsets in for servicing for battery- and battery charging-related problems. 15% to 18% each mentioned damage to the display panel or other exterior parts, malfunctioning of the buttons or touch-related components, picture quality degradation and problems concerning the voice call and sound quality. 

TSMC Supplies Mobile Application Processors to Apple

Taiwanese media sources announced on June 24 that TSMC, a local foundry company, beat Samsung Electronics to supply Apple with mobile application processors (APs). An AP is a device compared to the brain of the iPhone, iPad, etc. Samsung has been the sole supplier when it comes to the A6 processor used in the iPhone5.

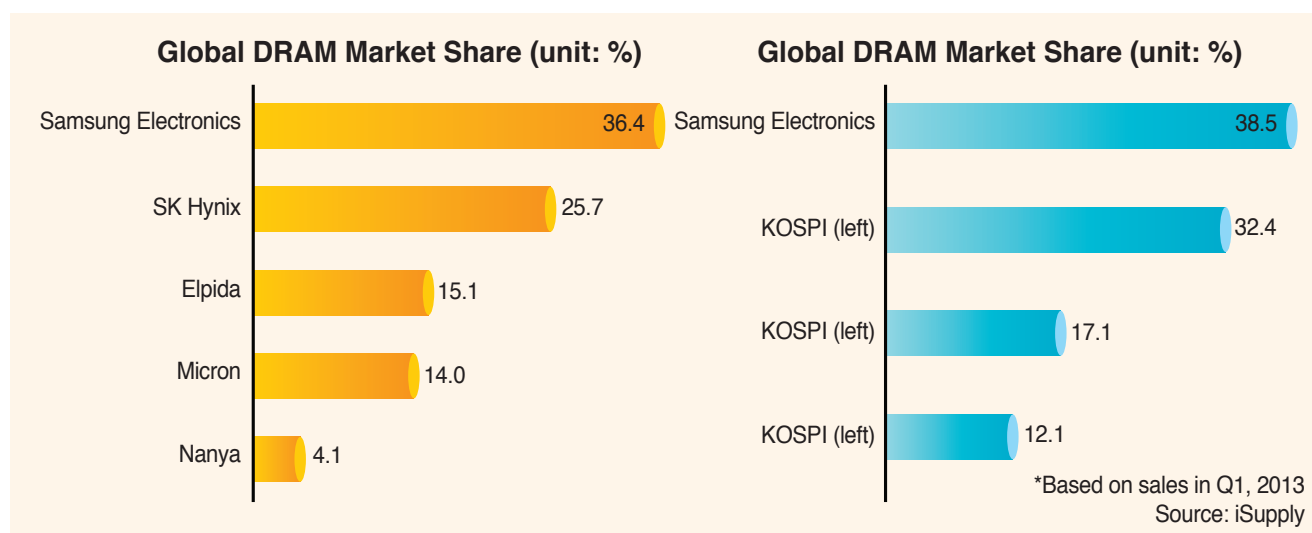
The DigiTimes Daily Newspaper announced that TSMC and Apple signed a three-year supply contract with each other and the former manufactures the A8 processor from next month for the next-generation iPhone and iPad that are slated to hit the market in 2014. It is said that TSMC is going to boost the production volume from the first quarter of 2014 after putting the 20nm process into operation late this year. Still, the daily newspaper did not mention whether TSMC has become the sole AP supplier for Apple.

According to industry experts, the contract has to do with Apple's strategy to reduce its dependence upon Samsung Electronics, its archrival in the global smart phone industry. TSMC is expected to start the production of the A9 and A9X processors from the third quarter of next year, too.

Assuming that TSMC wins 100% of the APs for the new products of Apple, the new profits are likely to reach approximately three trillion won. At present, Apple is using about 200 million units of APs a year for its iPhones and iPads. The DigiTimes added that TSMC did not set out its official position regarding the press reports.

ALLIANCE IN SEMICONDUCTOR BUSINESS

Samsung Electronics and SK Hynix Agreed to Share Patents



The cross-licensing agreement between Samsung Electronics and SK Hynix is the second one of its kind between Korean companies, following the other one signed 20 or so years ago between Samsung Display Devices and Goldstar. It is expected that the agreement at this time will be a boon to the semiconductor manufacturers' global market leadership while having a positive effect on the ongoing patent negotiations between Samsung Display and LG Display. "The cross-licensing agreement is truly shocking news for the entire industry in that the two companies' combined global market share is at over 60%," said an industry insider.

Conclusion after Three Long Years

Their negotiations started by accident. The staff members in charge of patent management had a casual meeting with each other and happened to talk about patent sharing to result in working-level talks.

"The two giants' opinions clashed in some cases during the past three years

but they agreed in the end to conclude the contract in view of the fact that they have symbiotic relations in the industry," said another source, adding, "All of the details of the negotiations are planned to remain confidential, which implies that the two built much trust with each other during the course."


The agreement is likely to allow them to take a further advantageous position in the development of next-generation semiconductor technologies with the industry currently being led by three groups -- Samsung Electronics; SK Hynix; Micron and Elpida -- as the scope of the contract is expected to be expanded to cover advanced semiconductor technologies.

As early as back in 2008, SK Hynix and Samsung Electronics had already signed a mutual agreement for the joint development of non-volatile memory products. They are still moving ahead with the goal and are likely to include this part in the cross-licensing contract. "Probably, the two companies will expand the scope of cooperation building on the mutual confidence," said a securities mar-

ket analyst. He continued, "It is expected that their past and future patents will also be covered by the agreement down the road."

Positive Impact Expected on OLED Patent Negotiations between Samsung Electronics and LG Electronics

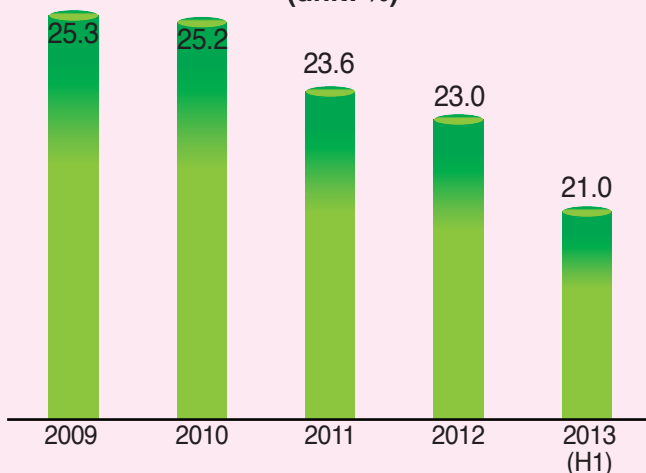
At the same time, the agreement is forecast to have a positive impact on the OLED patent negotiations between Samsung Electronics and LG Electronics. The predecessors of the two companies had agreed to share their 8,139 CRT- and LCD-related patents in 1992.

"Once the Korean corporations come to terms with each other regarding the cross-licensing of OLED display patents as well as semiconductor-related ones, foreign patent trolls' aggressive stance cannot but lose steam," an IT industry personnel pointed out, adding, "Such forms of cooperation have great significance in terms of the development of domestic industrial ecosystems and the creation of an advanced patent ecosystem here in Korea." 

COMPONENTS AND MATERIALS

Korea's Reliance on Japan Hits Record Low

Korean Companies' Dependence on Components and Materials Imported from Japan
(unit: %)



About five years ago, local textile company Youngdo Velvet succeeded in developing its own rubbing cloth to break the 20 year-long monopoly of Japanese companies in the industry. A rubbing cloth is a key component for manufacturing an LCD panel, which determines the brightness and resolution of TVs, smart phones, etc. Although Youngdo Velvet had some difficulties finding customers, the Korean government encouraged LG Display to employ the product, helping it to increase its domestic market share to up to 40%.

LIG ADP, an LCD equipment manufacturer, developed etching devices on its own not to be dependent on imported ones any longer, too. Its domestic annual sales are reaching over 250 billion won these days.

Korean materials and component manufacturers, which used to be busy imitating their Japanese counterparts until the 1990s, are sharpening their technological and price competitiveness at a rapid pace to significant-

ly improve the adverse balance of trade in the industry.

According to the Ministry of Trade, Industry and Energy, the trade deficit with Japan in the sector decreased by approximately US\$540 million to US\$10.35 billion in the first half of this year. The reliance on imported components and materials dropped to 21.0% as well, which is the lowest ever in its history.


"It is also true that the prices of Japanese components have somewhat dropped due to the depreciation of the yen but the trade imbalance is being resolved anyway," said the ministry. The deficit, which had amounted to as high as US\$24.3 billion in 2010, declined to US\$22.2 billion and is expected to further go down this year. It was 2001 that the government began in earnest to deal with the asymmetry. At that time, the government set up basic plans for the promotion of the industry and has invested 300 billion won each year since then to boost the competitiveness

of companies in the sector. "A turnaround was prepared in 2010, about 10 years after the implementation of the policy, to improve the trade imbalance," the ministry continued.

By major item, the dependence upon imported semiconductor photocells dropped from 53.4% to 8.7% between 2002 and 2011. The percentage decreased from 90.7% to 47.4% and 90.7% to 17.7% for steel sheets for surface treatment and LCD fluorescent lamps during the same period, respectively. In the auto industry, an increasing amount of Korean companies' parts are finding their ways into Japanese carmakers like Toyota, too.

Under the circumstances, the overall trade surplus in the materials and component sector is showing an upward trend. The sum reached US\$48.3 billion in the first half of 2013 to record a 12% growth year on year and set a new high. The export growth rate was 5.2%, close to nine times that of the entire industry, while its amount of export accounted for 47% of the total exports to make up for the decline in the shipment of finished goods amid the global economic recession.

At the same time, the sector's concentration of exports to China has lowered substantially. It fell from 36% to 33.9% between 2010 and the first half of 2013, meaning that the quality of the trade structure has been improved.

The ministry is planning to further spur the development of the industry by means of the third industrial promotion plan scheduled to be announced in the latter half of this year. Korea is still highly dependent upon Japan and Germany when it comes to high added value ceramic and chemical components and the like. The government is going to focus its investment on these fields to catch up with Japan by 2020. 

OIL REFINING INDUSTRY

Will It Soar with Petro Chemistry?

Prior to the oil refining industry's Q2 earnings release, the sales turnover of major domestic oil refiners is projected to bottom out due to the marginal drop in the oil and refining prices with the first half year's global economic depression.

However, the latter half profit figures will see a slight increase, propelled by the accomplishments of petro chemistry products.

Accordingly, the shift in industry to petro chemistry is expected to be accelerated.

On July 21, the oil refining and securities industries have estimated that the Q2 sales of major oil refiners, such as SK Innovation, GS Caltex, S-Oil, and etc., will drop from 50 to maximum 90% in comparison to the previous quarter's.

Plummeting refining margins from the global economic depression is the main cause.

According to HMC Investment Securities (HMCIB), the average complex refining margin from Q1 at over US\$9.00 per barrel has constantly dropped since April, to under US\$5.00.

The refining margin has been recovering since mid-May up to US\$7.80 in June, but it was still far behind sufficient for recovering the profit figures.

Oil prices which used to mark over US\$120.00 per barrel are currently fluctuating at US\$100.00.

In addition, the worsened profitability due to a temporary oversupply of benzene, paraxylene (PX) and other petro chemistry products and routine maintenance contributed to the overall profit degeneration.

Yet some express an optimistic outlook on business gradually picking up in Q3, after the Q2 trough.

Although the refining margin will remain limited by the prolonged global economic recession, the industry is pro-

jected to show a slow recovery trend centered on petro chemistry products such as benzene, toluene, xylene (BTX).

In fact, seeing from HMCIB's earnings projections of SK Innovation's subsidiaries by each business sector, SK Energy in the oil refining industry showed profit figures of 130 billion KRW in 2011, followed by a dramatic drop to under 30 billion KRW in 2012, and expects a recovered figure of no more than 80 billion KRW this year.

On the other hand, SK Global Chemical for manufacturing petro chemical products records a stable 70 billion KRW from 2011 to last year and expects 80 billion KRW this year, followed by a skyrocketing rise up to 140 billion KRW by 2015.

Also, S-Oil's last year refining business was dull enough to report some deficits while its petro chemistry business reaped over 80 billion KRW in profits.

With China extending its high-purity terephthalic acid (PTA) production, the demand for PTA's crude materials, BTX and PX, is largely increasing.

Few express concerns that the business outlook on the latter half year remains negative due to several variables.

The Korea Chamber of Commerce & Industry (KCCI) reported that the development of shale gas is weakening the price competitiveness and also forecasted the latter half year of the oil refining industry to be "cloudy" in its "Second Half of 2013 Industry Forecast Research."

KCCI argued the loss of price superiority by explaining that Korea has a manufacturing cost of US\$1,000.00 by using the naphtha cracker to produce one ton of ethylene which is the basic material of petro chemistry, while the US spends US\$600.00 by using ethane cracker with shale gas.

An oil refiners representative claimed, "Since it is a repeated pattern for the oil refining industry to bottom out in Q2 then pick up in Q3, the latter half year's business showings will be better than the first half's, unless something critically negative happens." ■



Oil Refining Facility of SK Innovations

HYBRID CAR MARKET

Will the Tide Led by Japanese Cars Turn?



Mercedes-Benz E300 BlueTEC hybrid is scheduled to be launched in the latter half of this year.

Korean hybrid car market dominated by Japanese cars is in a spiral of the great power shift.

As patented hybrid technology of Toyota, which has been in the number one position in Korea's hybrid vehicle market, is due to expire this year, a variety of import car brands are pioneering Korean hybrid car market with vehicles fitting their characteristics. In particular, American and German car brands, which have touted driving efficiency rather than mileage, are threatening the Japanese stronghold in the hybrid automobile industry while mounting a serious challenge to Japan's domination of the market.

According to the import car industry on July 23, "Mercedes-Benz E300 BlueTEC hybrid," "All-New 2013 Ford Fusion Hybrid," and "2013 Lincoln MKZ Hybrid" will be launched within the country in the second half of this year.

BMW and Porsche are selling hybrid cars corresponding with characteristics

of each company in Korea. Their market shares of total hybrid vehicle sales are still low, but they are on the rise.

Toyota was the first brand that started selling its cars in Korean hybrid car market. This year the brand has introduced 10 hybrid models in the country.

They include 7 Lexus models and 3 Toyota models. Particularly in the case of the former, their market share of total hybrid car sales in Korea between 2010 and 2011 increased rapidly from 6.64% to 32.38%. The corresponding figure of Toyota was 38.11% last year.

As the market is growing, there are visible signs of other brands' entry to the hybrid vehicle market. In particular, moves of US and German cars, whose focus has been on driving efficiency instead of mileage, are noticeable.

Their strategy is to broaden customer choice while releasing hybrid cars with improved mileage while having the existing image of high performance cars. "As

hybrid technology is becoming more common, each brand tends to apply related technology based on its unique characteristics these days," said a spokesman of a Germany's auto importer.


First, Ford will launch All-New 2013 Ford Fusion Hybrid and 2013 Lincoln MKZ Hybrid in the second half of this year, followed by its introduction of 2013 Ford Fusion Hybrid in the first half of this year.

Mercedes-Benz aims to publicize diversity and show various line-ups classified by fuels. "Whereas Toyota focuses on hybrid, we concentrate on expanding consumer choice by providing numerous products per

line-up," said an official of Mercedes-Benz in Korea. Mercedes-Benz is selling Mercedes S Class S400 Hybrid Long in Korea and planning to release Mercedes-Benz E Class E300 BlueTEC Hybrid Avantgarde in the second half of this year.

BMW exhibited hybrid cars through "BMW ActiveHybrid" models. Those models show that the company intends to make cars with "good gas mileage" and "high performance" at the same time. "To take one example, BMW 3 Series ActiveHybrid produces 340 horsepower. Considering the New 2013 BMW 3 Series 320d has 184 horsepower, this model is a high performance car," said an official of BMW.

Porsche also launched Porsche Panamera S Hybrid in 2012 after introducing Porsche Cayenne S Hybrid in 2010.

Meanwhile, hybrid vehicles accounted for 5% of Korean imported car market and Korean cars made up 2.3% of total hybrid car sales in the country last year. 

SUVS

Popularity on the Rise



Korando Turismo

The popularity of sports utility vehicles (SUVs) is skyrocketing despite the ongoing recession in the automobile market as more and more people enjoy outdoor leisure activities. For example, Ssangyong Motors sold more than 5,000 units of SUVs in June this year alone. The company's SUV sales volume between 2012 and 2013 had stood at around 2,000 to 4,000 units per month.

Wide Indoor Area and Suitability for Leisure Activities Appealing to Consumers

The high popularity of its products such as the Korando Sports, Korando C and Korando Turismo can be attributed to the wide in-vehicle area and excellent off-road driving performance. "The Korando Turismo, which is the only 11-seat vehicle equipped with 4WD in Korea, is the perfect choice for family tourists and group tourists," said an executive at the automaker,

adding, "At the same time, it provides excellent driving performance on wet roads and off roads." He continued that, if six or more persons use the same car, the model is allowed to use the bus-only lanes on expressways so that the passengers can be free from the traffic jam stress while saving gas and time.

Hyundai Motor Company's Max Cruze is another model highly popular with domestic consumers. The Max Cruze is based on the bestselling model Santa Fe but the wheelbase is approximately 100mm longer than that. Since its debut four months ago, it has been selected by over 5,900 consumers in Korea, way over the expectations of the carmaker.

Ssangyong's Korando Sports, which recorded the highest sales volume among the three Korandos last month, is particularly well-received by camping fans. The pick-up truck is characterized by its deck as wide as 2.04m². Furthermore, even a small

tent can be set up on it.

Female Drivers Noticing the Driving Convenience and Cute Design


In the recent past, SUVs were not that popular with female drivers. However, they began to take notice of the convenience of SUVs, that is, the high seat position and clear view, and automakers came up with products of pretty design to win them over.

One of the examples is Ssangyong's Korando C. The model comes with a 181 horsepower engine and the lowest noise, vibration and harshness (NVH) among the models having the same size. Its Smart All-wheel Drive (AWD) system selects the most suitable type of driving in various conditions while the flat floor and reclining seats in the second row allow three adults to travel with comfort.

Automakers both at home and abroad have been launching a series of new SUV models to appeal to female consumers as well, including Tucson (Hyundai), Sportage R (Kia Motors), QM5 (Renault Samsung), Trax (GM Korea), RAV4 (Toyota) and Tiguan (Volkswagen).

Popularity of SUVs Having a Direct Effect on Automakers' Sales

In spite of the sluggish overall performance of local automakers, Ssangyong Motors has posted the highest monthly sales in the first half of this year thanks to the popularity of its SUVs. In fact, it was the only carmaker in Korea that recorded a year-on-year increase in sales. Its monthly sales volume has been going up from 3,777 units in January to 4,094 in February, 4,645 in March, 4,853 in April, 4,918 in May and 5,347 in June.

Even the other companies fared well in the SUV segment. The combined domestic sales of Hyundai, Kia, GM Korea and Renault Samsung declined in the first half of 2013 but most of them succeeded in increasing their SUV sales during the same period. For instance, Hyundai sold 11.2% less vehicles in H1, 2013 but the growth rate in the SUV market amounted to 45.2%. GM Korea's overall turnover fell 8.8% whereas that in the segment went up by 20.7% from a year earlier. 



STX RG Emerging as Another Variable for Its Business Normalization

Two Variables for Stabilization of STX Offshore & Shipbuilding

STX Dalian

- The creditors can save up to 1.8 trillion won of burden in the event of STX Dalian's normalization.
- The Chinese creditors are showing little will to stabilize STX Dalian.
- The Korean and Chinese creditors are discussing measures, including the continuation of shipbuilding.

Refund Guarantee (RG)

- RG worth 5.8 trillion won has to be borne if STX Offshore & Shipbuilding is stabilized.
- There are split opinions among the creditors concerning the contracts based on price dumping.
- 75% of the creditors have to provide their consent because it is a voluntary agreement.

It has been found that the creditors need to provide a refund guarantee (RG) of up to 5.8 trillion won in addition to new funds worth three trillion won to stabilize the business of STX Offshore & Shipbuilding. It is expected that at least some of the estimated losses amounting to 1.8 trillion won can be saved if the measures are taken to normalize the management of STX Dalian, which is the company's ship manufacturing base in China.

The Korea Development Bank and the other creditor banks received the due diligence report on July 1. RG can be defined as a system in which a shipper pays some of the contract amount to a shipbuilding company in advance and then the creditors return the sum if the latter fails to carry out the contract.

Deloitte Anjin LLC, which conducted the due diligence, estimated that the creditors have to underwrite the RG worth approximately 5.8 trillion won if STX Offshore & Shipbuilding returns back to nor-

mal. Though RG is considered as a type of business practice in the industry, it can pose some burden on the creditors of the company that is going through a liquidity crisis because they have to stand surety and provide three trillion won of new funds at the same time.

“The surety obligations related to the RG are rather unlikely if the business of STX Offshore & Shipbuilding is completely normalized but still can act as a significant variable as the situations of the creditors as well as the shipbuilding company are not that good,” said the financial authorities, continuing, “The creditors are likely to sift out less profitable ones among the 5.8 trillion-won RG contracts.”

The creditor banks are between a rock and a hard place as they cannot cut the size of the RG unilaterally. The shipbuilder can stabilize itself and the creditors can be free from additional burden only when the company is allowed to build more ships to get more profits. If the creditor banks give up on the company based on the due diligence results, the amount of the refund is limited to 1,176.9 billion won, which is less than one-fifth of the 6,244.5 billion won that has been invested by the creditors. Meanwhile, in the case of business stabilization,

the amount is almost doubled to 2,237.3 billion won. “STX deserves the RG support on condition that it succeeds in stabilizing its business,” said one of the creditors, adding, “It is not such an urgent matter because the support is offered over a long period of time.”

Another variable for the business normalization is STX Dalian. STX Offshore & Shipbuilding not only has some shares in STX Dalian but also commissioned it to build marine vessels. It has issued RG via the creditors, too.

STX Offshore & Shipbuilding’s loss of 1.8 trillion won that is estimated to be caused by STX Dalian is the amount that was generated due to the discontinuance of shipbuilding. The sum is divided into 661.5 billion won in surety liability, 531.5 billion won losses related to the shares in STX Dalian, 336.4 billion won RG regarding the commissioned shipbuilding, 316.5 billion won due to the depriving of the advance payment, etc.

The financial authorities are considering that the Chinese government and creditors are unlikely to let go of STX Dalian because more than 30,000 workers are working for it and it is in business relations with a lot of subcontractors. In other words, they are

expecting that they will be able to save 1.8 trillion won of burden through at least partial normalization. As a matter of fact, the Chinese creditors have said that they are willing to provide funds for building six out of the nine ships. However, the creditors in Korea are having hard time negotiating with them as their Chinese counterparts are closely connected to the Chinese government. The Korean government, which has a much more optimistic view than the creditors do, is also admitting that the prospect is still gloomy. “Things defy any prediction as of now,” one of the creditor banks pointed out, adding, “We have no much expectation as to how much of the amount will be saved from the 1.8 trillion won.” The creditors are expressing particular concerns about the possibility that the Chinese government will shift the financial burden for the normalization of STX Dalian onto them.

In the meantime, the Korea Development Bank, the main creditor bank, has opted to decide on the amount of the support fund on a yearly basis. This signifies that it will reduce the support fund after partial normalization instead of fixing on the amount right away. Experts are saying that the measure has the purpose of relieving the burden on the part of the creditors. BK



ISTANBUL-GYEONGJU WORLD CULTURE EXPO 2013

Cultural Extravaganza to Review Historical Significance of Silk Road



The Istanbul-Gyeongju World Culture Expo 2013 takes place in Istanbul, Turkey from August 31 to September 22. Co-hosted by the two cities under the theme of Road, Encounter and Companion, the event will include 50 countries from around the world.

Both Gyeongju and Istanbul were trade hubs connecting the Eastern and Western Worlds, with the ancestors of the Turkish people ruling the Central Asian continent in alliance with the ancient Goguryeo Kingdom. More recently, Turkey sent 15,000 soldiers to South Korea to fight in the Korean War. The World Culture Expo is to shed new light on the blood alliance and its historical importance, as well as seek

a better future through stronger mutual cooperation.

During the expo, Korea and Turkey will present more than 30 special cultural programs in 10 fields of art in order to boast their cultural excellence, including exhibitions, performances, hands-on events and many more. One such feature is the Korean Culture Hall, in which visitors can look around the history of the two countries and enjoy Korean culture. Other exhibitions include the Korea-Turkey Exchange Exhibition, a photo exhibition of leading Korean photographers and the Special Exhibition on the Cultural Properties of Korea.

In the performing arts segment, the

non-verbal fantasy performance Flying, which has been exported recently to Singapore to huge popularity, and the Shilla, Land of the Gods, which depicts the love story of Princess Seondeok, are ready to mesmerize audiences. A B-boying Fusion Performance will also be performed, along with traditional fashion shows, street parades and Taekwondo performances.

The exhibition will also feature The Korean Film Festival, the Korea-Turkey Traditional Culture Experience and the Special Exhibition on Famous Korean Film Directors. Over 40 films will be screened during the festival, as well as movie star autograph events, allowing people from around the world to



become more familiar with the Korean Wave.

A number of famous singers can be seen during the Special K-Pop Stage, while specialties and souvenirs from 30 countries worldwide will be available at the Silk Road Bazaar. The World Folk Culture Festival will parade the beauty of the traditional cultures of around 20 nations in order to promote cultural unity. The provincial and municipal troupes of North Gyeongsang Province and Gyeongju City will stage their own performances, while exhibition halls will be set up to publicize the province, the city and Korean companies.


“The event will mark an important step in the great cultural journey of North Gyeongsang Province and Istanbul,” said Kim Kwan-yong, co-chairman of the organizing committee for the expo. He continued, “Both governments are dedicated to the success of the international event.” The other co-chairman, and mayor of Istanbul, Kadir Topbas, echoed this, saying, “I’m very pleased to hold this event in Istanbul, a city where more than 30 million tourists visit every year for its cultural vitality.” He added, “We’ll make great efforts to ensure that it becomes an important and successful cultural event.”

As stated, the purpose of the expo is to review the historical significance of the Silk Road and the two cities that are located at either end. The venue itself is a symbolic landmark of Istanbul linking the past with the present. The Hagia

Sophia Plaza, where the opening ceremony will be held, is one of the best structures built during the Byzantine Empire. The Eminonu Plaza, which will house the Korean Culture Hall, is a traffic hub of Istanbul and has been picked by international tourists as one of the country’s must-see spots.

Gyeongju City and North Gyeongsang Province are anticipating that Istanbul-Gyeongju World Culture Expo 2013 will create momentum for introducing Korean culture and industries in Europe as well as attract foreign tourists.

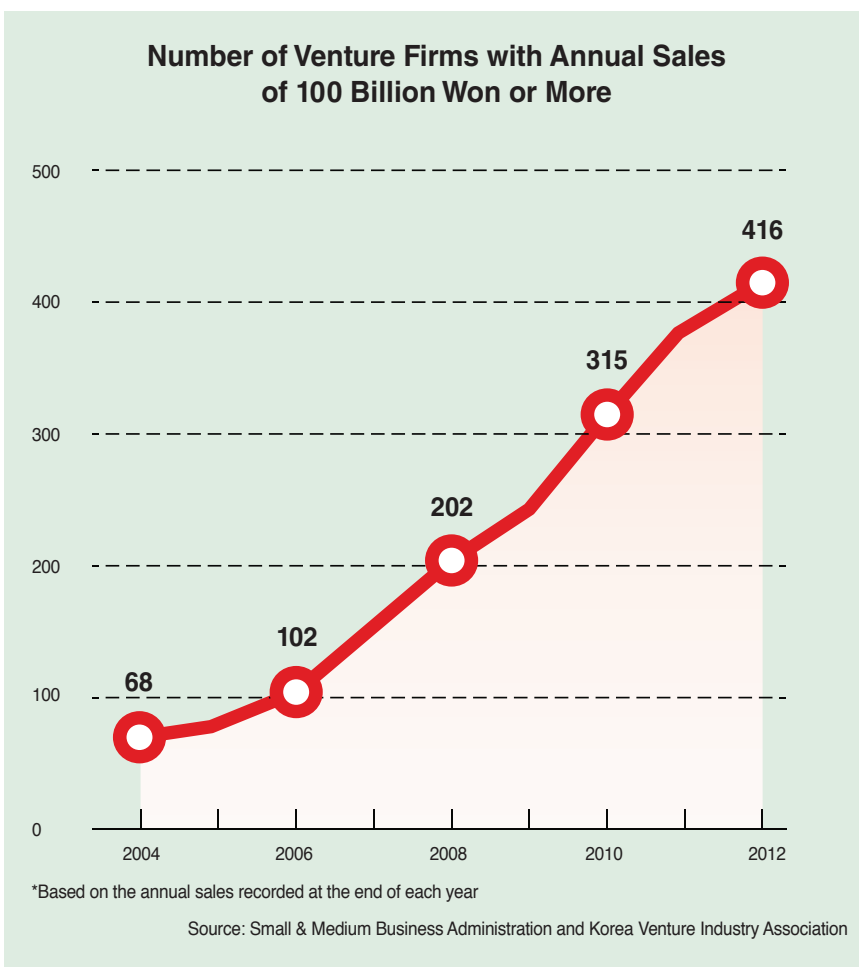
The Gyeongju World Culture Expo, held every couple of years in 2,000 year-old Gyeongju City, is a cultural exposition in which the perfect harmony between Korean culture and global culture is sought. It has been held six times since 1998. Close to 60,000 artists from across the world have participated in the event with the total number of visitors topping 10 million.

Seven years ago, the event was held in Cambodia as the Angkor-Gyeongju World Culture Expo and received huge international acclaim. The Istanbul-Gyeongju World Culture Expo 2013 is the second Gyeongju World Culture Expo to take place in tandem with a foreign city. This year’s event is expected to add to its reputation as one of the foremost cultural events and festival brands representing Korea. 



BILLIONAIRE VENTURES

More than 400 Venture Firms Exceeding 100 Billion Won in Sales in 2012



It has been found that the number of venture firms with sales of at least 100 billion won exceeded 400 last year in Korea. This is a six-fold increase compared to eight years ago, when such statistics began to be compiled.

At the same time, no less than 54 venture companies broke the 100 billion won sales mark for the first time last year, and in spite of the global economic recession. Nevertheless, the net increase rate in the number of such firms, which had been over 20% since 2005, fell to single digits in 2012.

The Small & Medium Business Administration (SMBA) and the Korea Venture Industry Association published statistical data for 2012 on July 16. According to them, 416 venture firms in Korea posted total sales of 100 billion won or higher as of the end of last year. The number stood at 102 in 2006 and has increased consistently to 202 in 2008 and 315 in 2010.

“Not only is the sales growth rate of venture companies, which stands at 9.1%, higher than those of big businesses at 5.1% and small

and mid-size firms at 3.5%, but also their operating profit ratio has surpassed that of major corporations by a margin of 1.7 percentage points to reach 6.5%,” said SMBA Commissioner Han Jeong-hwa, adding, “Furthermore, they contributed greatly to job creation, hiring 146,016 people in 2012; an employment growth rate of 8.6% year-on-year.”

Venture firms take an average of 17 years from foundation to pass the 100 billion won mark. Those in the telecom and broadcasting equipment manufacturing sectors take 11.2 years on average, while it can be as long as 20 years for firms in the energy, medical, food and beverage, textile and metal industries.

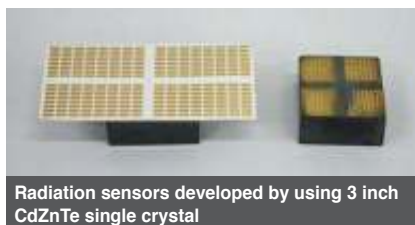
In particular, six companies; NPD, Dae-woo Display, Yukil C&S, U-Bis, A-Tech Automotive and Wonik Materials, reached the target in less than seven years by dint of their market penetration efforts and aggressive R&D investment. NPD, a wholesaler and retailer of mobile phone components, was able to achieve the accomplishment in just three years.

As many as five venture firms posted sales of one trillion won in 2012. NHN’s gross sales totaled 1.51 trillion won in 2012; remaining over one trillion won for five consecutive years. It was followed by Nexon Korea (1.11 trillion won), Korea Nitto Optical (1.07 trillion won), Sungwoo Hitech (1.01 trillion won) and Yura Corporation (1.01 trillion won). These four joined the ranks for the first time in their history last year, while Samdong’s gross sales fell from over one trillion won to 830 billion won during the same period. Humax (880 billion won), Seoul Semiconductor (860 billion won) and Moneual (830 billion won) followed.

“The data shows that venture firms are opening up overseas markets very successfully through consistent R&D investment, and as a result recording stellar growth and profitability despite adverse economic conditions,” added the commissioner. 

PET DEVICE

KAERI Aiming to Develop on Its Own by 2015



Radiation sensors developed by using 3 inch CdZnTe single crystal

Professor Ha Jang-ho's research team at the Advanced Radiation Technology Institute of the Korea Atomic Energy Research Institute (KAERI) announced on July 1 that it is going to complete its research on radiation sensors and radiation sensor materials used in radiation imaging devices such as nuclear medicine imaging and airport security detection devices. The team is planning to come up with Korea's first domestically produced radiation imaging devices for medical use by 2015, including those for positron emission tomography (PET) and single photon emission computed tomography (SPECT).

The researchers began their research on the


sensor technology back in 2007 and succeeded in growing the compound semiconductor element of CdZnTe, in which cadmium, zinc and tellurium are synthesized, into a single crystal with a diameter of two inches in 2009 for the sixth time in the world. They are going to further raise the yield and develop CdTe and CdZnTe single crystals with the minimum diameter of three inches by the second half of this year, using them to produce radiation sensors before supplying the samples to clients at home and abroad.

The team is also working on analog electronic signal processing technology for the development of sensor materials, high-resolution sensors and overall sensor systems while combining them with digital electronics and imaging technologies of local colleges and corporations in order to produce prototypes of radiation imaging devices.

PET and SPECT systems cost two to five billion won per unit and the domestic market is currently dominated by global companies like

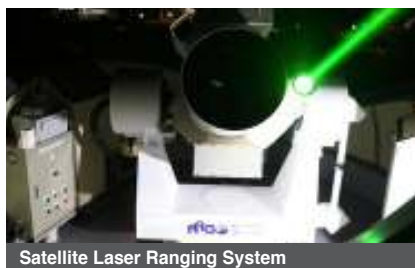
GE Medical, Siemens and Philips. Once the self-development turns out to be successful to halve the unit supply price, the import replacement effect is estimated to reach a trillion won a year.

At the same time, the researchers are aiming to develop materials using mercuric iodide (HgI₂) and titanium bromide (TiBr), two of next-generation radiation sensor materials, by 2017 so that Korea can take the lead in the advanced radiation imaging device market. The materials are planned to be employed in airport and port security detectors, space telescopes, advanced solar cells and so forth, too.

"The global radiation imaging device market is estimated at over 70 trillion won in size and its annual growth rate is expected to amount to 17% down the road with the preference for pain-free and bloodless therapies going up," said the professor, continuing, "We will keep devoting ourselves so that Korea can obtain the finest radiation imaging technology, radiation sensor materials and radiation sensors in the world." 

KOREA ASTRONOMY AND SPACE SCIENCE INSTITUTE

Beginning Satellite Laser Ranging Construction



Satellite Laser Ranging System


On July 24, the Korea Astronomy and Space Science Institute and Geochang County, South Gyeongsang Province signed the "Agreement on Installing the Laser Ranging Observation Infrastructure and Science Infrastructure." This agreement has been arranged to initiate the construction of a "Fixed Type SLR System (ARGO-F)" which can pro-

tect the national space assets from any space wreckage.

Satellite Laser Ranging (SLR) is a system to measure the distance between Earth and a satellite by shooting laser at the satellite then calculating the time taken to receive the reflected light. This newly developed system is the most accurate ranging method yet for measuring the satellite distance, and can be divided into fixed type and movable type depending on its mobility.

"Fixed Type SLR System (ARGO-F)" increases the size of the telescope from the 40 centimeter movable type SLR System to about one meter. Additionally, its higher laser output reaching 200 ~ 36,000 kilometers (stationary orbit) allows a more precise distance measure-

ment, regardless to the satellite's laser retro-reflector array installation. It can also track space wreckage of up to 20 centimeters in size, thus providing superior advantage to the field of space surveillance. Especially, its ability to video record the satellite shape is anticipated to contribute greatly to the national space development business.

The actual construction of the observation infrastructure will begin next January when the land purchase and design planning process complete and continue until February 2015. Dr. Lim Hyeong-chul of Korea Astronomy and Space Science Institute said, "Once ARGO-F is completely installed, its surveillance ability will serve a great purpose in protecting the national space assets from threatening space wreckage." 

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